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ABSTRACT

This series of 12 short essays with teacher's guides is designed to provide secondary students with practical skills and knowledge of our economic system. Objectives are for students to: (1) identify basic concepts which underlie our economic system, (2) understand how systems operate, (3) analyze strengths and weaknesses of the economic system, (4) synthesize knowledge into personal financial planning, and (5) judge the authenticity of economic data. For each of the 12 essays, the teacher's guide lists the primary objective, key concept, terms to know, generalizations, and relevant learning experiences. "A Dollar and Sense Quiz" tests knowledge about everyday economic matters that affect everyone. Learning experiences include collecting newspaper articles on the economy and inviting the personnel manager of a large department store to speak. "Whatever Happened to the Nickel Candy Bar" establishes the relationship between prices, productivity, and the economic well-being of a society. Learning experiences involve making price comparison charts and researching federal laws related to productivity. "The Magic of New Products" explores the role of new product research and development in a growing economy. The learning experience involves classifying new products as beneficial to the individual or society, as vital or faddish, or as advantageous to world trade. Other essays explore the free enterprise system, inflation, the job market, and foreign trade. References and a glossary of economic terms are included. (KC)

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Sears Educator Resource Series

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OUR ECONOMIC SYSTEM

ESSAYS AND TEACHER'S GUIDES

Compiled and Edited by
Sally R. Campbell

The essays in this booklet are reprints of 12 three-page advertisements sponsored by The Business Roundtable which appeared each month from February, 1975 to January, 1976, in the READER'S DIGEST magazine. The accompanying Teacher's Guides are designed to help educators interpret and expand the essays and broaden student understanding of the role of business in our economic system.

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PREFACE

As consumers we depend on business to satisfy our needs and wants.

As workers we derive our income from business enterprise or from sources that depend on business.

And as citizens we influence the role that government plays in instituting regulations that affect the general economic environment in which we live and work.

The economic arena in which this activity takes place has been variously defined as a free or private enterprise system or a market economy. Essentially, it represents the means by which we utilize human resources, raw materials and capital in order to satisfy the needs and wants of our society.

Sears, Roebuck and Co. is committed to this system in which consumers and businesses jointly and freely determine what, how and for whom goods and services will be produced. It is this economic system which has given the United States the highest standard of living in the world.

Sears also believes that young people who learn about the characteristics of our economic system—its basic framework, its strengths and its problems—can become more discerning consumers as well as more effective citizens and producers.

To demonstrate our faith in these principles, Sears, Roebuck and Co., with the permission of The Business Roundtable and *Reader's Digest*, commissioned this resource manual. Its primary objectives are to help you:

- present basic information about our private enterprise system to your students.
- create a broader understanding about this system among youth.
- establish a relationship in the student's mind between economics and the well-being of the individual and the society in which he or she lives.
- provide young people with the background to develop understandings which are necessary to make competent economic choices as consumers, workers and wage earners, and voting citizens.
- counter — with factual information — some of the misunderstandings, lack of information and negative attitudes that exist concerning the role of business in our economic system.

The following essays, written by the editors of *Reader's Digest* and sponsored by The Business Roundtable, have been reprinted to allow for classroom reproduction and hands-on use by students. Teacher's Guides accompany each article to help amplify the concepts and invite student involvement through active participation in "Our Economic System."

"Nationwide polls show that most Americans have a great many misconceptions about our economic system and the role that business plays in that system.

"Recent research carried out under the direction of The Business Roundtable's Economic Education Research Group found that 'The U.S. public already is overwhelmingly sold on the system in principle, but there is considerable misconception in circulation and people are critical of what they regard as deficiencies in the way the economy works.'

"This research also found that 'There is a strong correlation between people's attitudes toward big business and the amount of correct economic information they have.'

"Sears has obtained permission from Reader's Digest and The Business Roundtable to make the essays in this manual available for classroom use. We hope that through the essays and the accompanying Teacher's Guides, you will have the resources you need to present to your students an accurate and realistic picture of the role of the business community in 'Our Economic System.' "

Arthur Wood

Arthur M. Wood
Chairman of the Board and
Chief Executive Officer
Sears, Roebuck and Co.

OUR ECONOMIC SYSTEM

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GENERAL INSTRUCTIONAL OBJECTIVES FOR

OUR ECONOMIC SYSTEM

Educational objectives are designed to identify, for both teacher and student, desired outcomes by the student upon completion of a specific unit, course, or learning experience. The following general instructional objectives are arranged in order, from the simplest to the most complex educational outcomes in the abstract reasoning, or cognitive, domain. They are intended only as a guide. You and your students may wish to develop your own instructional objectives together with specific and/or measurable behavioral outcomes according to their needs and interests.

After studying the essays in "Our Economic System" and completing selected learning experiences, students should be able to:

- identify the basic concepts underlying our economic system.
- understand how our economic system operates in answering the basic economic questions of: (1) what to produce; (2) how to produce; and (3) for whom goods and services will be produced.
- apply the knowledge of our economic system to personal economic choices in the marketplace, on the job, and in the ballot box.
- analyze the strengths and weaknesses in our economic system as well as the processes of change which affect them.
- synthesize and integrate this knowledge into personal financial planning and economic decision-making.
- judge the authenticity and logical consistency of economic data and forecasts made available by different sources.

The essays and teaching suggestions are designed for use as the basis for a mini-course on our economic system, as a unit within an economics course, or as an introduction to our private enterprise system for those students who may not be exposed to a complete course in economics.

Because this manual is extensive in its scope, many persons in various professional fields were consulted prior to its publication. The following pages devoted to teaching suggestions represent a synthesis of their counsel and expertise, rather than individual viewpoints. For their encouragement and for their critical review of the preliminary manuscript, the author extends grateful appreciation to:

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A DOLLAR-AND-SENSE QUIZ

How much do you know about everyday economic matters that affect all of us?

You're deeply involved in economics whether you've ever taken a course in it or not. Every time you buy a can of beans or collect a paycheck or put $20 in your savings account, you affect not only your own economic life, but the lives of others. Yet, many of us have only a vague understanding of "where the money goes" and "who gets what." How well do *you* know the system of which you're a part? Circle the correct answer to the following questions and see how you score.

1. How much of each corporate sales dollar goes to employes through wages, salaries and benefits? (a) 25 percent. (b) 42 percent. (c) 53 percent. (d) 67 percent.

2. National income is the total amount of earnings of the American system—from corporate profits to workers' paychecks or a landlord's rent collections. What portion of each dollar of national income goes to taxes? (a) 13 cents. (b) 17 cents. (c) 25 cents. (d) 37 cents.

3. How much extra in fringe benefits—health plans, paid holidays, etc.—does the average American factory worker (making $9152 a year) receive? (a) $800. (b) $1000. (c) $1500. (d) $3000.

4. What determines the value of the U.S. dollar? (a) How much gold the government owns. (b) How much in goods and services the dollar will buy. (c) Whatever the Federal Reserve decides it's worth. (d) Prices in the stock market.

5. Creating jobs takes capital for plants, machinery, etc. On average, how much capital would the steel industry, for example, have to invest to create one job in a new steel plant? (a) $50,000. (b) $75,000. (c) $100,000. (d) $200,000.

6. Why do professional baseball stars earn so much more than steelworkers or even lawyers? (a) Sports are vital to the economy. (b) Good athletes are scarce and their services are in great demand. (c) Baseball is the national sport. (d) Players have a powerful national bargaining agent.

7. Which of these investments is the riskiest for you? (a) Savings accounts. (b) Corporate bonds. (c) Stocks. (d) Life insurance.

8. What was the single biggest factor in raising the middle-income American family's cost of living last year? (a) Food. (b) Taxes. (c) Housing. (d) Fuel.

9. Which of the following most accurately describes a recession? (a) Spending by business and consumers slackens. (b) Bottom falls out of the stock market. (c) There are more jobs than workers. (d) Government tax receipts rise.

10. In the American economic system, the type and quantity of goods produced are determined largely through (a) governmental regulation. (b) price fluctuations on Wall Street. (c) the interaction of supply and demand. (d) corporate decisions.

The Answers

1. (d) Employe wages, salaries and benefits account for 67 percent of the corporate dollar, according to U. S. Department of Commerce figures. Of the remainder, 16 cents goes to taxes and eight cents to replace the tools and machinery of production, leaving only about nine cents to be divided between dividends for stockholders and cash for company expansion, which creates jobs.

This message is reprinted from a three-page advertisement sponsored by The Business Roundtable which appeared in the June, 1975 issue of Reader's Digest.

2. (d) From each dollar of national income, federal, state and local tax collectors take 37 cents, of which 25 cents goes to Washington. If present trends continue, taxes will take more than 50 cents from each dollar of national income by the year 2000.

3. (d) The average factory worker, making $9152, has $3020 in fringe benefits available to him. In the decade 1963 to 1973, while wages climbed 72 percent, fringe benefits, ranging from hospitalization insurance to paid holidays, increased 126 percent.

4. (b) The value of the dollar is determined by how much it will buy. Money is only as "good" as the amount of food, electricity, clothing, etc., you can get in exchange for it. Government policy is one factor: excessive federal spending beyond revenues depreciates the value of the dollar. At the end of last year, for instance, the dollar would purchase only 56 cents' worth of what it bought in 1958.

5. (d) The investment necessary to create one new job in a modern steel plant is $200,000. The total cost of such a plant, employing 11,500 workers, would be $2.3 billion. Similarly, one new job in the oil industry takes $100,000. In the chemical industry, $45,000. In mining, $75,000. The money has to come from retaining part of the company profits (that would otherwise go to stockholders), loans, or finding more investors. That's why profit and investment are vital to expanding the economy and producing more jobs.

6. (b) Baseball stars draw big salaries because their talents are scarce, and their services are sought after. That's supply and demand.

7. (c) The greatest risk, but potentially the greatest reward, is investing in stocks. When you buy a share of a business and it flourishes, your return could exceed the interest from bonds or a savings account. If it does not flourish, you may get little or no return on your investment. The tremendous economic growth of this country has depended to a great degree on risk-takers.

8. (b) The biggest single factor pushing up the cost of living in 1974 was taxes, according to a study by the Joint Economic Committee of the U.S. Congress. Last year, an American family making $14,466 saw its Social Security taxes jump 21.6 percent and personal income taxes rise 26.5 percent. By comparison, housing costs rose 13.5 percent, food 11.9 percent.

9. (a) In a recession, spending by business and consumers slackens. It's difficult to pinpoint the exact cause, but the results are only too apparent. Consumers, perhaps because inflation has depleted the purchasing power of the dollar while raising prices, put off the purchase of a new car or washer. Surpluses of consumer goods pile up in the marketplace. Businessmen and investors are reluctant to expand at such a time, so there is a snowballing effect. Production is cut back, workers are laid off, consumer buying slows even further. Only when buyer confidence in the economy is restored and buying resumes can the economy begin to grow again.

10. (c) The American economy functions largely through the interaction of supply and demand. The incentive of profit spurs businesses to supply consumer demands in variety and abundance. The important thing is that in our free-market system *we* make the decisions. If you see a truckload of chickens bound for Indianapolis, you can be sure the people there made the decision that ultimately set the truck rolling. If the people around Indianapolis stop eating chicken, the truck will have to go elsewhere, and some chicken farmers and distributors will have to start wondering just what those Indianapolis people want. There can be no doubt about who's in charge of the American marketplace—the consumer.

TEACHER'S GUIDE FOR
ESSAY 1

A DOLLAR-AND-SENSE QUIZ

PRIMARY OBJECTIVE:

To provide a means of checking personal knowledge and understanding of our economic system.

KEY CONCEPT:

Everyday Economics

TERMS TO KNOW:

bonds
capital
cost of living
economic system
fringe benefits
insurance
investment
market economy
national income
recession
stockmarket
stocks
supply and demand
value of the dollar

GENERALIZATIONS:

In a private enterprise economy, the interaction of supply and demand largely determines the type and quantity of goods and services produced.

The highest percentage of corporate sales dollars goes to employees in the form of wages, salaries and fringe benefits.

The average American worker receives valuable fringe benefits equal to about one-third of his wages or salary.

The value of the dollar is determined by the quantity and quality of goods and services it will buy.

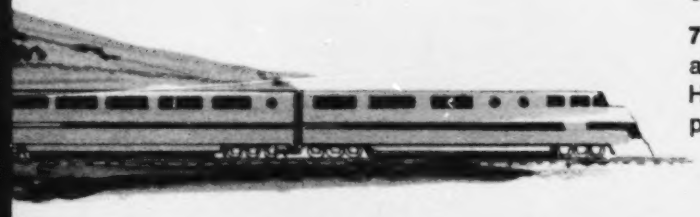
Substantial capital investments in plants, machinery, materials, supplies. and other productive resources are necessary to create jobs.

There is a relationship between prices and supply and demand. As goods or services become scarce, or are in demand, prices tend to increase.

Different types of investments and yields vary in the degrees of risk involved for the investor.

Taxes, rather than cost of production, have been the most significant single factor in the recent cost of living increases for middle income families.

Recession is an economic condition characterized by a slackening of business and consumer spending.



LEARNING EXPERIENCES:

1. Take the "Dollar-and-Sense Quiz" and check your answers. Find additional information on the answers you missed or were not sure about. Discuss each question in class.

2. Express the answers to the quiz as generalizations which can be applied to similar sets of economic facts.

3. Divide the class into two groups. Ask each to make up a similar economic quiz to test understanding of basic facts about our economic system. Let each group take the other group's quiz. Correct the answers and discuss the results.

4. Collect articles on the economy from financial pages of newspapers and magazines. Bring them to class to interpret and discuss. Ask students to relate ways they are affected by the economy as well as ways they and their families affect the economy.

5. Conduct a brainstorming session to explore reasons and possible solutions for the widespread misunderstanding and lack of basic information on our economic system. As you brainstorm, follow these rules: (1) work for quantity; (2) don't judge the ideas, just list them; (3) all contributions accepted, no matter how zany . . . unorthodox ones may be the best; and (4) the last step is to evaluate each item. Then write up constructive suggestions to submit to financial editors of newspapers or to representatives in government.

6. Invite the personnel director of a large retail store or local manufacturing plant to visit the class and discuss the employee benefits offered by that firm. If a resource person cannot visit the class, teams of students could tape the interviews and report back to the class.

7. Ask employed family members and friends about the fringe benefits where they work. How *will* they, or *do* they, actually benefit that person. Discuss in class.

FREE ENTERPRISE–IS THIS ANY WAY TO LIVE?

The way we earn our "daily bread" in this country is under attack as never before. It's time to face up to the question . . .

Every time you pick up a paycheck, buy a gallon of gas or make a bank deposit, you renew your active membership in the American free market. Our economic system's almost infinite freedom of choice—between house and condominium, one supermarket and another, large car and small—is the "humdrum" reality of the highest standard of living in the world.

And yet a vocal group of economists, social reformers, "consumer advocates" and other self-proclaimed critics are trying to convince us that our system is evil, that we should feel guilty about the way we live. Indeed, one of them says that our system "has issued a death sentence against the individual human spirit" and "plunged our country into its present economic chaos, destroyed the lives of millions of families and threatened the very survival of the republic."

Strong stuff. But is it even partially true? Maybe it's time to remind ourselves of a few facts as we consider the following charges against our way of life:

• **Free enterprise exploits people.** The critics say that the system degrades man, making him a cog in the industrial machine, repressing his individualism. Yet how can they reconcile this darkly tinted 19th-century view with the Pittsburgh steelworker who hitches his motorboat to his new car and heads for his cottage on Deep Creek Lake, Md., on summer weekends, or the machine operator in Dayton who rises to plant manager? The view is hardly compatible with the fact that median family real income (figured in constant dollars) has nearly trebled since 1939. Nor does it jibe with polls showing that Americans 8 to 1 like their jobs.

• **The free enterprise system makes us selfish and materialistic.** No one doubts that our economic system has produced an extraordinary abundance of material goods. And it is true that "average Americans" spend nearly half their total income on what they *want* (the other half takes care of necessities—food, clothing, housing). No people have ever lived so comfortably. But the record indisputably shows that, even as they have enjoyed and insisted upon material benefits, they have poured out much of their material wealth unselfishly. In 1965, for example, we gave $12.2 billion to churches, hospitals, schools and a dizzying variety of charitable causes. Last year, despite recession, we gave $25.2 billion, a seven-percent jump over 1973.

And we give of our time, too—much of that time free because of material things that shorten our working hours at home and on the job. We compose an army of 37 million volunteers —hospital workers, Little League coaches, den mothers, helping hands for the elderly and the retarded. The world's most materially wealthy society has brought a peculiarly vital effectiveness to the concept of volunteerism.

• **Our way of life debases our taste.** The critics picture us as helpless slaves to manufacturers, addicted to a stream of frivolous products put out purely for profit. But if we

This message is reprinted from a three-page advertisement sponsored by The Business Roundtable which appeared in the September, 1975 issue of Reader's Digest.

don't want such products, we don't buy them. The choice is *ours*.

Critics also blame the system for the fact that some of us persist in eating "junk food" or listening to "awful noise" on the radio. They're afraid that we'll make the "wrong" choice between wool and nylon, pretzels and carrot cookies. Yet the very genius of the market enables us to make such choices freely and in abundance. "Indeed," notes economist Milton Friedman, "a major source of objection to a free economy is precisely that it does this task so well. It gives people what they want instead of what a particular group thinks they ought to want. Underlying most arguments against a free market is a lack of belief in freedom itself."

• **Free enterprise concentrates wealth and power in the hands of a few.** In no other society is wealth so obviously in reach of its people. The Bureau of Census reports 59.2 percent of national income goes to the 103 million people in families making $10,000 to $25,000. More significant, in 1962 there were 464,000 households making over $25,000. By 1973, there were *5.4 million* such households—a more than tenfold increase—astounding even when inflation is taken into account. One indicator of how wealth is distributed in America: two out of every three families own or are purchasing the dwelling in which they live.

Well, then, say the critics, wealth and power must be in the hands of big corporations. But who are these corporations? They are more than 31 million Americans who own corporate stock, plus more than 100 million others who indirectly share in ownership through stock owned by life-insurance companies, pension funds, etc.

Says economist Charls Walker, "I know it's fashionable to say that the big interests run the government. But if that's true, how in the world were the taxes of 'big interests' raised by $6.5 billion in the 1969 Tax Reform Act? And why haven't those 'big interests' prevented the passage of inimical regulatory acts?" Because the *people*—who run the marketplace—still run the country.

Perhaps you've noticed that the case against the free market is seldom made on hard economic grounds, but rather on hard-to-pindown philosophical issues. That's because the facts of performance are so overwhelmingly in its favor.

Here are some figures: With seven percent of the world's land area and six percent of the population, we produce 33 percent of the world's goods and services (about equal to the total output of Western Europe and Japan combined). Although our labor force is approximately two-thirds the size of the Soviet Union's, we produce twice as much as the Russians do each year. In 1940, one American farm worker fed about ten people. Today, a single American farm worker feeds 54 people here and abroad.

But all the evidence of the system's well-known efficiency and productivity is ultimately not as important as a certain intangible that looms larger than mere economics. This is the subtle blend of freedom and order inherent to the marketplace. *You* are free to decide how best your skills can be applied, where you will work, what you will buy with your earnings. Can you imagine some central authority deciding who will be a tool-and-die maker in Latrobe, Pa., or a vacuum-cleaner repairman in Keokuk? The free market monitors an incredibly complex assortment of prices, wages, resources, skills, needs, desires—and yet it leaves *you* in control.

TEACHER'S GUIDE FOR ESSAY 2

FREE ENTERPRISE–IS THIS ANY WAY TO LIVE?

PRIMARY OBJECTIVE:

To provide a factual background to serve as a basis for evaluating the pros and cons of a private enterprise economy.

KEY CONCEPT:

Living in a Private Enterprise Economy

TERMS TO KNOW:

capitalism
corporation
economic growth
free enterprise system
free market
goods and services
material benefits
opportunity cost
private enterprise
productivity
profit
real income
standard of living

GENERALIZATIONS:

Economics is the study of the ways societies organize and use productive resources to create and distribute the goods and services needed to satisfy human wants.

Economics is concerned with the law of scarcity, i.e. the use of scarce, limited resources to satisfy unlimited needs and wants.

Five basic problems to be solved by an economic system are: (1) what to produce; (2) how to produce; (3) how much to produce; (4) when to produce; and (5) how to distribute or share the goods and services produced.

In a private enterprise system or market economy, consumer demand greatly influences what to produce; the profit motive stimulates business activity and production; competition encourages efficiency; and individuals are permitted to choose freely the ways they will apply their talents and savings to the production output of goods and services.

The price of specific individual and collective economic choices may be stated as a dollar amount or as an opportunity cost.

The opportunity cost of using a set of resources to satisfy one particular need is the inability to use the same set of resources to meet other needs. For example, the opportunity cost of going to college is the loss of income from a job.

Both the economic welfare of the individual and the preservation of our economic system depend on competent, ethical decisions in the marketplace, on the job and in the ballot box.

LEARNING EXPERIENCES:

1. Ask students to list five economic choices (including decisions they may have made *not* to buy!) which they made during the past week, and five economic choices they must make within the next five years, which will drastically affect their future lives. Discuss how these choices might be made in a society with a centrally managed economy.

2. Study published results of polls (Gallup, Harris, etc.) in your local newspaper to determine how questions are asked and how they are reported. Then have the class conduct its own poll, interviewing persons holding different jobs in the world of work—managers, salespersons, assembly line workers, people in service professions and those who are self-employed. Try to find out what those holding different types of jobs think of the private enterprise system. Questions should be carefully worded so interviews may be compared. Discuss and draw conclusions from the findings.

3. Divide the class into teams of students to study economic conditions in the United States from 1930 to 1945, from 1945 to 1960, from 1960 to 1970, and from 1970 to the present. How are we different today than from given periods in the past? What was better in other periods? What is better now? What does comparison tell about the future? What were the most important economic happenings for each period? How do past economic decisions affect the current economic situation?

4. As a class, draw up a list of at least five things an individual can do to strengthen, preserve, or change our private enterprise system. (These should be based on fact rather than on value judgements.) Have individual class members choose and carry out one of their suggestions. If possible, arrange for a "report back" session later in the school year.

5. Discuss the possible opportunity costs of the following economic decisions:

- a consumer purchase of a $30 tape recorder.
- a municipal government commitment to a $500,000 swimming pool.
- a major corporation's decision to build a new, modern, two million dollar plant.
- a foundation grant of $10,000 for the study of violence on TV.

Discuss or debate whether the decision is good or bad as well as the probable results of the choice.

6. Survey ten adults as to how they think their vote in the ballot box affects the economic welfare of this country. Include such items as:

- taxes.
- social security.
- prices of goods and services.
- spending power.

AMERICA'S AMAZING SUCCESS MACHINE

We don't give "rags to riches" a second thought, we're so used to the idea

Is there an American dream? Inventor Nathan Zepell thinks so. In fact, he says he's *living* it—in a sun-flooded, spacious home on a mountainside overlooking Santa Barbara, Calif. Chances are that you have used one of Zepell's creations. More than 100 million of his pens have been sold under various names all over the world.

But Zepell's dream began with a nightmare.

It was the end of World War II. His name then: Nathan Zepelovitch. Home: Riga, Latvia. Age: 29. Weight: 87 pounds. Last address: Buchenwald concentration camp. Family: all killed by the Nazis. His house and his small furniture hardware factory: destroyed in the war.

In 1949, Zepell arrived in the United States —in his head the ideas he had nurtured since his teens to improve man's writing instruments. Worn and hungry, the immigrant walked the streets of New York, bewildered by waiting endlessly in outer offices. Initially, he knew only two words of English—"all right." But things weren't all right. Time after time, representatives of pen companies told him that there wasn't a new idea about pens not already checked out. There were already 10,000 pen patents registered in Washington, D.C., including the original ballpoint patent of 1888. "Give this up, Nathan," an attorney friend told him. "Get a job and start eating again."

But Zepell wouldn't give up. Finally, after nine years, Columbia Pen and Pencil Co. listened to the intense, handsome man with the idea for a ballpoint "pen that remembers." To fasten the pen in your pocket, you had to snap the clip outward from the barrel, which automatically retracted the ballpoint, thus preventing ink stains on your shirt.

The pen caught on almost immediately, and Nathan Zepell was on his way. "It wasn't just a matter of the invention; it was a matter of America," he says. "I could have invented the pen anywhere, but where else could I find a market like this and rewards so great?" Now he has secured 28 patents, including a flat plastic ballpoint that writes in two colors and serves as a bookmark.

If Nathan Zepell's life story is inspiring, it is also somewhat familiar. The term "rags to riches" is a cliché to the average American—because it's so true, so possible. It's the upward way traveled by many a person who has thought of some new or better way to benefit the public. There's no guarantee it will be easy, no guarantee against jolting failure; but our system's inherent faith in people and their ideas has paid off—not just for the Thomas Edisons and Henry Fords of the past but for uncounted Nathan Zepells of today.

The payoff ripples through the entire economy, affecting consumers, workers, everyone. New ventures or inventions mean new factories, the creation of new jobs, new homes and businesses, and often a real enhancement of our way of life. Ultimately, America's economic magic depends on men who are free to create and are given the prospect of generous rewards.

Some outstanding examples of success:

- Byron Godbersen started on his way to a fortune because the hydraulic hoist on his farm wagon was too heavy and inefficient. He designed and built a lightweight hoist with an ingenious "movable fulcrum." Other farmers

This message is reprinted from a three-page advertisement sponsored by The Business Roundtable which appeared in the July, 1975 issue of Reader's Digest.

wanted "one just like it," and Midwest Industries was born in 1954. The company, in Ida Grove, Iowa, does an annual business of $10 million in farm machinery and marine products. And Byron Godbersen is rich beyond any dreams he might have had when he set out to make farming a little easier—for himself and others.

• Irvin Robbins and his brother-in-law, Burt Baskin, went into business in 1947 with a modest ambition: "We wanted to make 75 bucks a week, and enjoy ourselves doing it." Thus were born the little California ice-cream stores that would become Baskin-Robbins. Their business credo: stick to ice cream only, offer a variety of flavors and *never* compromise on quality. Soon the partners were selling stores to reliable managers, taking royalties for supplying the ice cream and promoting the name. An ice-cream empire of more than 1500 shops developed. Baskin died in 1967. Millionaire Robbins looks after B-R franchises and devotes much time to encouraging young people to plunge into "the most amazing and rewarding business system ever devised."

The list could go on endlessly: A New York woman who scraped together a few thousand dollars, to found what is now a major chemical company. A plasterer from Atlanta's black ghetto who is today a contractor, banker and part owner of professional basketball and hockey teams. Two former college roommates, in their twenties, who pooled their savings five years ago to build what is now a $12-million-a-year business, designing and making casual clothes for the booming youth market. A secretary in Texas who devised a way to "paint out" typing errors, started the Liquid Paper Company, and not only made her fortune but made work easier for millions of secretaries.

Curious thing—people like these seldom set out to "make a million." Their success comes on the wings of ideas—to create something new, build something better, provide some fresh service. Maybe it's as basic as a reliable pen or improved farm machinery. Or maybe it's something that simply makes life a little more fun, like ice cream. But success results because people's needs and desires are fulfilled.

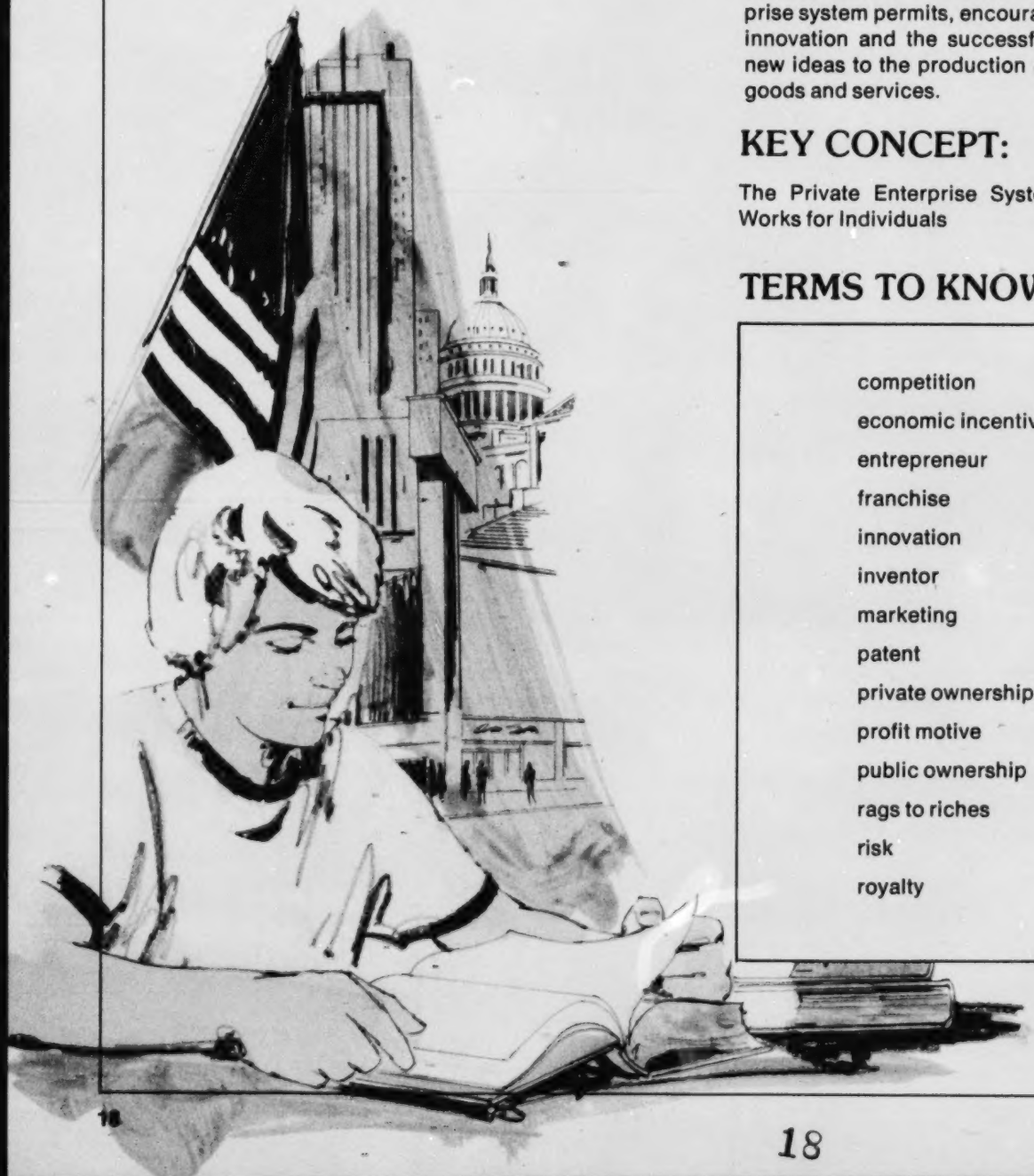
Kemmons Wilson, traveling with his family, wasn't at all happy about their overnight accommodations. Why shouldn't the average traveler be able to find clean, dependable, comfortable lodging at a reasonable price wherever he goes? Wilson answered the question himself, with a concept called Holiday Inns. In the process he revolutionized the motel business.

Such stories happen all the time in this American system that John Davenport in his book, *The U.S. Economy,* calls "a continuous and living development where one competitive breakthrough leads to another." Between 1963 and 1973, the number of new U.S. businesses incorporated each year climbed from 186,000 to 330,000. Failures? There are some—certainly. But thousands do succeed—not necessarily paying off in millions, but as solid, viable businesses. The former waiter who starts his own restaurant; the lathe operator who founds a small machine-tool company; the widow whose small bookstore expands into a healthy stationery and office-supply firm. And each success has an influence beyond itself—a chain reaction of jobs and opportunities that is in the end the greatest asset of a sound economy.

Even as you read this, new inventors and business innovators are plugging into our amazing economic machine. They all have one thing in common; they don't think "it's all been done" yet. They make the American dream come true every day.

TEACHER'S GUIDE FOR ESSAY 3

AMERICA'S AMAZING SUCCESS MACHINE



PRIMARY OBJECTIVE:

To illustrate how the American private enterprise system permits, encourages and rewards innovation and the successful application of new ideas to the production and marketing of goods and services.

KEY CONCEPT:

The Private Enterprise System and How It Works for Individuals

TERMS TO KNOW:

- competition
- economic incentive
- entrepreneur
- franchise
- innovation
- inventor
- marketing
- patent
- private ownership
- profit motive
- public ownership
- rags to riches
- risk
- royalty

GENERALIZATIONS:

In a private enterprise system, each individual may use his or her initiative to develop a new idea or product, assume the risks involved in making it profitable, receive the reward of monetary profits if successful, or suffer the penalty of losses if unsuccessful.

Income is one incentive to encourage efficient production.

Income can take the form of wages, fringe benefits, interest, rent, or profits.

Successful innovation in business is rewarded with income in one of its forms, usually profit.

The profit motive stimulates inventors, entrepreneurs and creative individuals to develop new ideas and products, to take risks, and to find better ways to produce and market goods and services for profit.

Innovation and invention are among the factors which make economic growth possible—through new factories, jobs, homes and businesses.

LEARNING EXPERIENCES:

1. Analyze your home, school, or community to determine the need for a new product, or service, or an improved system for making an existing product or service available to consumers. Describe how you would go about getting it to the consumer by supplying information about ways of financing the project, manufacturing, marketing, advertising, selecting a work force, etc. Ask a local business person, banker or Junior Achievement advisor to serve as a resource person on the project.

2. Define the terms *franchise, patent, copyright,* and *royalty*. Describe how each encourages and protects inventors and innovators. Are these safeguards unique to the private enterprise economy? How might they work in other economic systems?

3. Interview or arrange for a panel of four or five local people who are in business for themselves to talk to the class. Try to find out:

- the advantages and disadvantages of being in business.
- risks involved in getting started and keeping a business going.
- the role of competition in their business.
- trends in government regulations over the past 10 years.
- primary incentives in starting and maintaining the business.
- problems involved in managing people.

4. List at least five examples of ways you personally have been served by the "American Success Machine" in terms of products and services available to you. Include prices, convenience, motivation and job opportunities. Discuss individual answers in class.

5. Study one of the top 500 corporations in the United States and report on:

- the founder and his objectives in starting the business.
- the primary product or service when it was started as compared to the present time.
- a brief description of the most important trends, developments, people and discoveries that shaped the business.
- the role of government, taxes, competition and profits in the growth and development of the business.
- a brief discussion of whether and/or how the business might have developed under a different economic system.

6. Select three businesses in your area and find out what contributions each has made to the community in terms of jobs, payroll, job opportunities, attracting other businesses, taxes and contributions to community needs.

7. Research the career of your favorite recording star or rock group. Did they enjoy "instant" success or wealth? Why or why not? What personal and monetary sacrifices, if any, did they make to achieve stardom? What opportunity costs do they encounter now that they are famous? What are the business expenses that accompany their fame?

"THEM"

We all should know "them" better, for they play a vital role in everything we do

We've been hearing a lot about "Them" lately. Often bad things. About how big they are. They've been cursed in the streets, reviled in Congress, condemned in the press. They are often overestimated. They are seldom understood.

We all should know them better, for their handiwork is everywhere—though we may not realize it.

—They built a factory in a riot-torn section of Watts, Calif., then helped it along until it was a $10-million-a-year business owned largely by its employes.

—They helped to remodel a home for troubled youngsters in Leavenworth, Kan., and to fix up a recreation center for school dropouts and drug victims in Dallas.

—They created a million new jobs in the United States last year.

—They pour $325 million into education each year and another $144 million yearly into the arts. Their total outlay for charity each year is about $1 billion.

—They put $85 million into a new steelmaking process that prevented a steel mill in Pennsylvania from closing down, saving 2000 jobs.

—They give federal, state and local governments more than $41 billion in annual tax revenues.

Who are "they"?

Profits. The money earned over and above the expenses of operating our American business and industry. If industry were not profitable, not only would companies soon go out of business—with dire consequences to employes and stockholders—but a great variety of social and humanitarian activities would simply go by the board. It is a corporation's *continued* profitability that allows it to regularly put money into, say, public TV or the local symphony, and at the same time create new technology and new jobs.

Profits are not, as some people seem to think, clutched in the hands of a few cigar-smoking tycoons. There are 30 million stockholders in this country who count on them; 33.5 million workers whose retirement funds, invested in stocks and bonds, depend on them; 365 million life-insurance policies in force in the United States that depend to a great degree on dividends that profits produce.

Profits are far more, of course. They are one of man's primary incentives. Long after factories have been built and payrolls and fringe benefits paid, profits keep lights burning in offices, in laboratories, in men's minds, spurring the almost indefinable mix of new products and ideas called progress. Paper shufflers and chart devisers in a centralized economic bureaucracy do not invent automatic transmissions, fresh-frozen foods, kidney machines, double-knit fabrics or wonder drugs. Men in the marketplace do. Stimulated by the prospect of profit, they find harder steel, brighter color television, sharper razor blades, quieter air conditioners.

When millions wanted electric hair-styler dryers, tremendous amounts of money, planning and machinery had to be channeled to meet that demand by companies seeking a profit. When the dryers started rolling out, who benefited? The companies—sure. But the big beneficiaries were the consumers, first, because their demands were satisfied and, sec-

This message is reprinted from a three-page advertisement sponsored by The Business Roundtable which appeared in the April, 1975 issue of Reader's Digest.

ond, business competition quickly drove prices down.

Yet, while profits are so intimately tied to the lives of all of us, the public concept of them is so distorted as to be hardly a concept at all. For example, polls indicate that the majority of Americans believe business clears about 28 cents profit on every dollar it earns.

The fact is, after taxes the average U.S. company now makes a little less than a nickel profit on each sales dollar.

Certainly, in some industries the average is higher, but not very much. Mining companies, office-equipment and computer firms average between nine and ten cents on the dollar. Lumber products make around seven. Oil production and refining produce about eight. But in many industries the profit margin is much lower. Ironically, many of the lowest profit margins are in businesses that many people assume to be making "unconscionable profits" at the consumer's expense. Supermarkets, for instance, clear a little less than a penny on each sales dollar. In the retail-sales industry, the average profit per sales dollar is around two cents.

Business and industry have tried tirelessly to convey this true profit picture. But somehow we Americans remain peculiarly unconvinced. We buy a house for $28,000, sell it for $40,000, then the next day condemn someone else's "pursuit of profit." We blithely forget the realities of economics and competition.

Let's look at the profit picture on a common product—a woman's dress that sells in department stores for $50. A woman examining it might conclude she could make the same dress for quite a bit less than that amount. Provided she could get the pattern (one of hundreds submitted by the manufacturers' designers), she could indeed save money. But this dress is on the rack because the majority of women have neither the time nor the inclination to make their own.

MANUFACTURER'S COST AND PROFIT	
Fabrics and accessories	$ 8.11
Design and factory operations	4.91
Production wages and benefits	6.86
Administrative and sales salaries	3.97
Taxes	.98
Profit from sales to retailer	.92
Wholesale price to retailer	$25.75

RETAILER'S COST AND PROFIT	
Dress from manufacturer	$25.75
Advertising, sale markdowns, freight	5.55
Store operations	6.20
Payroll	9.10
Taxes	2.10
Profit from sales to customer	1.30
Selling price to customer	$50.00

Why does it cost $50?

The box above gives a breakdown of costs. And it shows that a $25.75 dress that provided jobs and made a profit for people in the garment industry ends up fulfilling a consumer desire, providing livelihood for a department store's employes, putting tax money in the public treasury and profiting the store's owners. In the process, it becomes a $50 dress. As for that $1.30 retail profit—well, you the consumer are the reason why it is that low. For to raise the profit margin the businessman would have to risk losing your patronage. You in the end make the decision. That's what competition is all about. And profit is the essence of competition.

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"THEM"

PRIMARY OBJECTIVE:

To explain the role of profits in our economic system.

KEY CONCEPT:

Profits

TERMS TO KNOW:

bond
capital
competition
depreciation
dividend
economic growth
gross earnings
incentive
investment funds
net earnings
operating cost
production cost
profit
rate of return
shareholder
stock
stockholder
undistributed profit

GENERALIZATIONS:

The hope of making profit is the incentive that motivates people to start and run business enterprises in our economic system.

Profit is basically the amount of money accruing to the entrepreneur after all the costs of operating a business are paid, including salaries of management.

There is a relationship between adequate profits and high productivity, full employment and economic prosperity: reduced profits are often related to recession, unemployment, a shortage of investment or growth capital and economic adversity.

The great majority of Americans earn their livelihood—paychecks, fringe benefits, insurance, pensions—either directly or indirectly from business employers who must have profits to survive.

In our economic system, the profits of business and industry are used to: build new factories, start new businesses and create more jobs and employment opportunities; pay taxes to local, state and federal governments; finance technological advances and innovations; pay dividends to stockholders and attract the capital required for business growth and expansion; fund charitable, cultural and educational projects; and, to provide the incentive to develop new and better products, ideas, and methods of making goods and services available.

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LEARNING EXPERIENCES:

1. Describe five economic consequences of inadequate profits which could affect the average citizen.

2. Assume that you own a local company and that its earnings fell 20 percent in one year. Describe how this would affect your decisions on:

- hiring new employees
- salary increases
- pricing your products
- buying new equipment
- building a new factory or store
- company donations to civic projects and charities

3. Assume you have $1,000 to invest and you want the money to grow and be safe. Explain what you would want to see in a company's profit picture before you would buy its stock or bonds. Or, assume that you have $1,000 to start a business that will be profitable. Explain what you would want to do before starting the business.

4. Investigate and discuss how inadequate corporate profits affect:

- the economy
- workers
- retired persons
- investors
- taxpayers
- you
- managers
- consumers
- your family

5. Investigate and report on how government taxing and spending policies can stimulate or depress corporate profits.

6. Observe institutional-type advertisements on television, billboards, and in magazines and newspapers. List several ways the companies sponsoring the ads have reinvested profits through new uses of energy, new and improved products, pollution control, etc.

7. Interview the executive secretary or manager of several local charities or non-profit organizations in your community (Boy and Girl Scouts, United Fund, Red Cross, etc.) to determine the dollar amount business contributes to their total budget as well as the percentage of their budget made up of business contributions.

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WHO CHEERS WHEN PRODUCTS WORK?

During these hard times, when all of us are concerned about getting full value in the things we buy, here are some important thoughts about quality

The new toaster was so shiny you could see yourself in it. But its first piece of toast looked like scorched plywood. And you burned your fingers fishing it out when it didn't pop up. Then the machine heaved a little electronic sigh and stopped toasting altogether.

What a storm! And it got worse. Leaving your wife and three kids beneath the shopping-center canopy, you dashed to your new station wagon. Soaked to the skin, you got behind the wheel and turned the key in the ignition. It wouldn't start. You tried again and again. Nothing. Not a spark.

It was a grand dinner. There were even some halfhearted offers to help with the dishes. "No, we bought a new dishwasher," you announced proudly. You loaded the dishes and joined the company. Uncle Ray was describing his new boat when you noticed the foamy water running across the dining-room floor.

Sound familiar? We all remember vividly when things don't work right. But somehow we don't even think about it when our car covers the 2032-mile trip to Canada and back without a hitch, or when the electric coffeepot keeps perking away year after year. There's just nothing spectacular about the sweeper that sweeps, the oven that bakes, the refrigerator that keeps right on doing its job.

No, the fact is that in our minds one malfunctioning product cancels out the thousands that do work. One of the greatest tributes to American industry is the fact that the "lemon" is news—the fact that bad products are the exceptions that surprise and bother us.

The expectations of the American consumer are very high, and the businessman knows it better than anyone else. That's why he seeks constantly to improve his product and maintain standards. The American Society for Quality Control estimates that business in this country spends from 8 to 15 cents of every sales dollar to overcome errors, to test, inspect and assure quality. Some examples:

- On the Tide-detergent production line in Cincinnati, boxes underfilled or damaged in any way are automatically and literally "kicked" into a reject bin.
- At the Gillette Company in Boston, every razor blade is examined for surface imperfections and sharpness. Some employes come to work unshaven each morning to test Gillette (and competitors') blades under laboratory conditions.
- At Eli Lilly Corporation in Indianapolis, some pills take as long as 45 days to manufacture. The process is stopped many times for tests of the purity and exact quantity of ingredients. As long as the pills are available on drugstore shelves, a control batch will be tested periodically to ensure potency and safety.
- At Sears, Roebuck & Co. in Chicago, many new products, from air conditioners to shotguns to water pumps, are tested in the field and in the lab (sometimes to final destruction) before they are marketed.

This message is reprinted from a three-page advertisement sponsored by The Business Roundtable which appeared in the May, 1975 issue of Reader's Digest.

To an alert, competitive company, these efforts are as routine (and as vital) as breathing. "The best sales tool possible," says one executive, "is a product worth what you pay for it." But still those negative experiences force their way into our minds. Why can't we make things *more reliable?* Why do there have to be *any* mistakes?

To answer such questions, we must measure our expectations as consumers against the realities of the mass market. We must consider what absolute product-perfection would do to prices and volume. Have you ever stopped to think what it would cost to build a television set that would "never" fail or wear out? Many thousands of dollars. And the assembly and inspection procedures would preclude more than a few thousand sets being built each year. Thus, the high quality would be academic for the majority of Americans, who would simply be priced out of the market.

Businessmen face a challenge. Do they travel the low road? Cut corners, use the cheapest materials they can get by with? Or do they take the high road—turning out each product by hand, forgetting costs, doing only "custom work" beyond the financial reach of millions of cost-conscious average Americans?

Wisely, realistically, American business travels instead a "Main Street," where the aim is the best product that can be made at a price the mass of consumers can afford. In shops and factories across the country, engineers, designers, shop foremen hold "product audits," examining the chain saw or tape recorder or child's toy before them. With production costs rising, how can they improve the product but keep the price competitive? Will this plastic compound be as strong and as workable as the now-too-costly metal it must replace? Sure, this transistor is cheaper, but will it do the job as well? At the Rockwell International Corporation, engineers redesigned a pocket calculator over and over again to cut the cost and time of manufacture while improving the reliability of the machine.

The cumulative effect of such activities is a boon to the American consumer, especially during this difficult economic period when all of us want to stretch our dollars as far as possible. For, what good is an improved product if it isn't readily available to everyone at a reasonable price?

The Main Street approach means that there are 117 million TV sets in U.S. homes, 21 million dishwashers, 35 million clothes dryers—and it means that by and large this abundance of products is an abundance of *good* products, constantly being improved because of competition. Look at automobiles, for instance, probably the most complex and sophisticated item the average consumer will ever buy. Today's cars run much longer between engine tune-ups, oil changes and lubrications than earlier models. Their brakes are much more reliable, their cooling systems require much less maintenance.

"Consumer pressure" is a healthy affirmation of the market system. After all, what good would consumer demands be in a society without businesses competing in reaction to those demands? But the consumer pressure is no new phenomenon; it is rather the same pressure that has always motivated the conscientious businessman—*competition.*

Certainly, consumers have the right to complain, to send things back when they aren't right. But what really makes American products the greatest bargains in the world today—in both cost and performance—is the fact that all of us constantly cast our votes in the marketplace. It is these consumer "ballots" that shape the quality of the goods we purchase day in and day out.

TEACHER'S GUIDE FOR ESSAY 5

WHO CHEERS WHEN PRODUCTS WORK?

PRIMARY OBJECTIVE:

To show why businesses competing in the marketplace must achieve product quality and performance combined with reasonable price to be successful.

KEY CONCEPT:

Quality Products at Mass Market Prices

TERMS TO KNOW:

competition
consumer pressure
consumer responsibility
customer expectation
customer satisfaction
"lemon"
mass market
price
priced out of the market
product perfection
production costs
quality
quality control
standard
volume

GENERALIZATIONS:

Consumer buying decisions are an important factor in determining the quality of goods and services offered for sale in the marketplace.

Competition stimulates businesses to continue improving products and controlling manufacturing costs in order to make quality products available at reasonable prices to the mass market.

The cost of developing a perfect, fail-safe product could place the price of that product well beyond the reach of a majority of consumers.

The quality control process includes testing and inspecting materials and products throughout the manufacturing process as well as checking the final product for performance and quality.

In a competitive market system, quality control is essential for any company that wants to attract and keep customers.

Manufacturers and sellers "cheer when products work" because a good product means customer satisfaction, repeat sales and, ultimately, better earnings.

Consumers have a responsibility for proper care and maintenance of products after purchase.

LEARNING EXPERIENCES:

1. Arrange field trips to a local bakery, restaurant, department store and repair shop with the purpose of finding out:

- how each business controls the quality of its products, services and operations.
- how each firm views customer satisfaction.
- how each business deals with complaints, faulty products and unsatisfactory service.
- how each business views its degree of success in meeting customer expectations.

2. Investigate and discuss the benefits and drawbacks of "product perfection" for consumers, business and the marketplace.

3. Use role playing to express the viewpoint of the customer, the seller and the manufacturer as it relates to customer expectation for the following products:

- tape recorder
- color TV
- raincoat
- ski parka
- typewriter
- 10-speed bike
- stereo system
- frozen pizza
- electric comb

Points to bring out in role playing situations can include:

- what the consumer wants from each product.
- what the manufacturer thinks the consumer wants.
- what the seller thinks the consumer wants.
- how the seller can interpret consumer expectations for the manufacturer.
- what constitutes reasonable and unreasonable customer expectations for each product.
- how consumers can make their expectations known.
- how consumers can obtain redress when products do not perform satisfactorily.

4. If possible, arrange a field trip to a testing laboratory or test kitchen of a large manufacturer or an independent testing lab. Try to learn how different types of products are tested, what is measured, and what standards are used to measure product quality and performance.

5. Elect a class secretary to contact five large companies, each with different product lines, and ask for information on their quality control programs. Compare quality control systems for different products and among different companies. How are the systems similar? How are they different? In what product lines is quality control most important for safety? For performance? For appearance?

6. Discuss the "perfect product" in terms of its advantages and disadvantages for business, consumers, and the economy. Can you think of products you and your family might not be able to afford if business aimed at "product perfection"? Can you think of products you might not want if business aimed at the cheapest possible product?

7. Discuss how the consumer's vote in the marketplace compares with the citizen's vote in the ballot box.

THE "SECRET TAX" AMERICA CAN'T AFFORD

Government spending that keeps on even after it has used all your tax money is a major force driving up the price of everything from hamburger to houses. Only you can make it stop

Ever wonder why you feel poorer even though you're probably making more money than your father ever dreamed of? You finally bought that house. You drive a nice car. Maybe you're making payments on that boat you always wanted. But why did that new tile in the kitchen cost so much more than you expected? Why did the bill for that washing machine service call take your breath away? Why do expenses now seem to exceed income?

There is an easy one-word answer to all these questions—*inflation*. But do we really understand what inflation is, and why this "secret tax" keeps chipping away at our paychecks?

Many factors have exacerbated this dollar-dissolving inflation—the energy crisis, crop prices, excessive and ill-advised government regulations, wages outrunning productivity. But the basic cause of inflation is one that most Americans seem largely unaware of: *spending money that hasn't been earned yet.*

In short, inflation is the creature of debt, and the most inflationary kind of debt is the one we —under our democratic system—are the most responsible for: the public debt. The officials we elect run up this debt to provide the loans, goods, services and programs that we have come to believe should be "paid for by government."

We forget, of course, that "paid for by government" means paid for by us. Government may *print* money, but this is only the symbol of wealth. Real wealth is the value of the goods and services produced by working men and women. It is their pay for making cars, houses, clothes, books, furniture and all the other myriad things we are accustomed to. Government depends upon this wealth that we create, and takes from each of us a portion of it through taxes and other revenues.

Last year we paid out $255.4 billion in federal taxes. Unfortunately, the government not only spent all this money; it kept right on spending, doling out $3.5 billion more than we gave it. And it has generally done the same for years—spending $66.8 billion more than income in the five years 1970 through 1974 alone.

That is where the trouble starts—when we, as electors, allow government, often for individually persuasive reasons, to spend dollars it doesn't have. It goes into debt.

But government and the average citizen go into debt under different rules. Government is the dominant borrower in the market, both from individuals (mainly through selling savings bonds) and by depositing IOUs with banks, then writing checks against them. Result: We taxpayers have to pay various banks and other lenders some $29 billion in yearly interest on the public debt.

And that's why we are in trouble. We pay all the government's bills, and we bear the burden of those bills government incurs after our tax money has run out. We pay by shelling out that secret tax that adds ten cents to a pound of bacon, $5 to a pair of shoes, $20 to an electric stove.

This message is reprinted from a three-page advertisement sponsored by The Business Roundtable which appeared in the March, 1975 issue of Reader's Digest.

Now this is the part of inflation that most of us don't fully understand: How the government's indebtedness pushes up the prices of the things we buy.

It works this way: We can't print money to cover our own debts. The federal government, however, can; through a complex procedure called "monetary policy," the Federal Reserve creates dollars and transfers them to banks. The banks make loans from these new "assets." Thus, money is "pumped into the economy"—money that was originally nothing more than the figures on a Federal Reserve check; soon more currency has to be printed to cover the new dollars. Many of these dollars originate through bank loans of various kinds. They find their way into the economy through various commercial transactions. But who has established the need for these new dollars in the first place? We have—through the many things we ask government to "do" for us; through loans and grants to businesses, schools, research groups; through "aid" programs of all kinds. Remember, most of these deficit dollars have not been earned by producing anything. They merely compete with our paycheck dollars for whatever goods and services we and others have produced. Result: The oldest of economic laws takes effect. With more money around than available goods, prices rise—and inflation is upon us.

Okay. Everybody talks about it. Almost everybody feels it. But what can we do about it?

Certainly, increased productivity—each of us producing more for the dollars we earn—is one of the most effective counters to inflation. Many businesses and dedicated workers have performed amazing feats of productivity, enabling them to increase their wages and profits while cutting the price of their products to remain competitive.

But productivity increases cannot indefinitely make up for the steady cheapening of the dollar brought on by the government indulging legislative whims with more "thin air" money. It's time for some tough decisions in Washington. Decisions that will not be made unless citizens—businessmen, farmers, workers, housewives, pensioners—demand them and are willing to accept the sacrifices that must be made.

Particularly in times such as these, no one would deny the use of federal resources to take care of the truly needy. And to alleviate the rigors of recession, job programs and other relief may well be essential. But with additional costs, it is even more imperative that the rest of the budget be kept under control so we do not wind up compounding the inflation which brought about the recession in the first place.

If we expect government to cut spending, however, *we must all cut our expectations of government.* Businessmen seeking special treatment to pull them out of a hole dug by their own inefficiency must make do with their own resourcefulness. Special-interest groups must stop and consider the overall effects of their requests upon government, and thus upon inflation. Citizens must realize that government installations may close in *their* area. Because the money is not available, certain non-essential programs may have to be delayed or even discarded.

We, all of us, are trying to hold the line on spending at home, and we should expect government to do the same. We only fool ourselves if we think real progress can be made without getting the government's fiscal engine back in tune.

And remember, *we* are the government. That's why we can do something about inflation—if we have the sense to discipline ourselves and the ingenuity to get more out of the considerable human and material resources we already have.

TEACHER'S GUIDE FOR ESSAY 6

THE "SECRET TAX" AMERICA CAN'T AFFORD

PRIMARY OBJECTIVE:

To define inflation and its consequences and to clarify the relationship between the public's expectations of government and government spending and inflation.

KEY CONCEPT:

Inflation

TERMS TO KNOW:

consumer price index
cost of living
cost-push inflation
deficit financing
demand-pull inflation
double digit inflation
Federal Reserve System
federal resources
fiscal policy
fixed income
government services
interest
monetary policy
private demand
productivity
public debt
real income
recession

GENERALIZATIONS:

Inflation is a period of generally rising prices for goods and services as well as for factors of production such as land, construction, labor, management and capital.

Inflation may result when the demand for goods and services significantly outweighs the supply of goods and services, or when there is too much money available to spend on too few goods and services.

The balance between supply and demand is variable and depends on factors such as: the amount of money people have to spend; the supply of goods and services to buy; consumer and business decisions on spending and investing versus saving; and government spending and taxing.

In periods of inflation, the extra money may be a result of: decisions by consumers and business to spend savings; deficit spending by government (spending more than is received in revenues); government decisions to issue more money, relax credit controls or lower taxes; and/or consumer and business reactions to expected inflation in the form of increased spending, borrowing and wage demands.

Inflation hits first and hardest at retired persons and others on fixed incomes; those who have accumulated and depend on savings for security; those with low incomes; and workers whose wage and salary increases do not keep pace with rising prices.

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Steps which government can take to control inflation include: increasing taxes; decreasing the nation's money supply; reducing government's own deficit spending; issuing voluntary guidelines for wages and prices; setting up wage and price controls; and/or establishing credit controls.

The measures for controlling inflation may create other serious economic problems such as massive unemployment and recession.

LEARNING EXPERIENCES:

1. Review recent newspaper and magazine articles about inflation and report back to the class with a brief summary of the articles. Then, as a group, develop a list of the main characteristics of inflation in the 1970's as discussed in the articles. Discuss how this inflation differs from inflationary periods in the past. What are the causes, cures and personal as well as public consequences that might result from various anti-inflation measures proposed by government?

2. Interview parents and family friends to determine how their income has changed in the past few years in relation to rising costs of the following:

- a television set
- an automobile
- food items such as sugar, bread, etc.

3. What would happen IF we all decided to "tighten our belts" and control inflation? What could each of the following groups do?

- you and your family
- employees
- labor unions
- business management
- special interest groups
- government
- consumers
- voters

4. Explain the impact of government spending in excess of revenues. What happens to prices when the government makes new money to pay for its debts?

5. Explore the relationship between the public's expectations of government and actual government spending. To what extent are government services really free? Who pays for government services? What services can best be provided by government? What can best be provided by the private sector?

6. List five items you regularly buy which have increased in price in the last two years. How much has the price increased? What production cost increases could account for the sales price increase? What marketing costs might account for the increase? Has the price increase altered your spending habits or those of your family? How do consumer spending habits typically change during inflation?

WHATEVER HAPPENED TO THE NICKEL CANDY BAR?

As part of a nation of producers as well as consumers, each of us has a lot to say about the price of things we want and need

Remember 1955? Kids were wild about Davy Crockett hats. Some people were worried that we might go to war over a couple of Asian islands called Quemoy and Matsu. The latest musical fad was something called "rock 'n' roll." A Chevrolet sedan cost $2000. A nickel candy bar felt pretty hefty in your hand.

Funny, but whenever you start playing the nostalgia game, you always get around to fond recollections of how far a dime or quarter or dollar "went" in the good old days. Funny, too, but none of us ever seems to really ask *why* the dollar doesn't go as far today. Whatever happened to that nickel candy bar? Why, indeed, do prices go up?

Too often we answer with a resigned sigh: "Everything's going up these days." But that isn't always so. The prices of some things have gone down: TV sets, for instance, and ballpoint pens (remember when we paid $1.50 for a "cheap" one?), toasters and quite a few other small appliances. How do these manage to run against the inflationary trend?

To answer, let's first consider two basic ways to lower the price of a product (barring the use of low-cost foreign labor to manufacture it outside this country). One way is to cheapen the product, lower its quality. But this is a fatal device in a free market—consumers catch on quickly. The other way is to maintain the quality but cut the cost of manufacture. If the product is soup cans, for instance, it means producing more and better soup cans for the time and labor spent. That's what's called improved *productivity.*

Now wait a minute. Don't head for the exits. We're not talking about men turning screws faster or running around with ladders and oil cans like characters in an old-time movie. We're simply considering how all of us here in America affect the prices of things we buy through the way we work. Just ponder, for example, what happens when a mix of technology, planning and worker motivation spells high productivity.

Major manufacturers of hand-held power tools in Germany, Japan and England have not been able to penetrate the American market because high-quality American-made hand tools are competitively low in price. One of the major forces behind this situation is the Black & Decker Manufacturing Co., of Towson, Md. For the past 16 years, sales of its products have grown an astonishing 17 percent a year, and during that time the prices of many of these products have dropped steadily.

The company secret? Better productivity. In part, this comes from the wise investment of funds in new machines and advanced research. But beyond that, Black & Decker's management and workers constantly set goals for themselves and meet them—not necessarily by doing things faster, but by doing them better. A typical problem: Company engineers knew they could vastly improve safety from electrical shock by doubling the thickness of insulation inside hand tools. But this would have added ten percent to manufacturing costs. Solution: Redesign of the tools, streamlining assembly and standardizing many small parts so the same ones could be used in differ-

This message is reprinted from a three-page advertisement sponsored by The Business Roundtable which appeared in the February, 1975 issue of Reader's Digest.

ent tools. Prices of the safer tools remained the same.

While such improved productivity has paid off in increased sales and profits, it has also paid off for employes. The company payroll in 1958 was $14.5 million for 3800 employes. Last year's payroll was $165.2 million for 20,700 employes.

And look at the payoff for the consumer: In 1958, Black & Decker's basic electric drill for do-it-yourselfers cost $18.95. Now it costs $10.99. A standard jigsaw that sold for $44.50 in 1958 now costs $11.99. And remember, these price changes occurred during a 16-year period which saw the U.S. Consumer Price Index rise 75.2 percent.

But the productivity payoff can also mean a lot more than new jobs and higher pay. Sometimes it spells survival. Consider the 1000 employes of the Ideal Corporation, a maker of precision automotive parts, in Brooklyn, N.Y. Saddled with an old plant and rising costs, Ideal recently looked into building a modern plant in the Midwest. The move would reduce the cost of transporting its products, and the cost of the factory was expected to be about $15 a square foot. Putting up a new plant in Brooklyn, on the other hand, would run at least $25 a square foot, and related operating costs looked certain to leave the company in a difficult competitive position. But Ideal had a loyal and skilled work force. It elected to remain in Brooklyn. Says John Wenzel, president of the company: "We decided to gamble on our ability to engineer processes that would reduce our costs." In other words, the productivity of Ideal's managers, engineers and workers kept their 1000 jobs in Brooklyn. And the company is thriving in its new plant.

Despite these by-no-means-isolated examples, there is disturbing evidence that America is slipping into a productivity crisis. While our productivity has historically grown at a healthy rate of about 3 percent annually, in recent years the growth rate has been falling; last year we had no productivity gain at all. Too many American businesses have been failing because they could not achieve the higher productivity that would enable them to afford the higher wages and shorter hours demanded of them. Others have hiked prices to pay the higher wages, with a resultant loss of business to foreign competition. Nine out of every ten baseball mitts sold in this land of Babe Ruth and Henry Aaron are foreign-made. So are 19 out of every 20 motorcycles, one out of every six cars. Since 1967, foreign industry has caused a reduction of at least 400,000 American jobs. That's why productivity—all of us putting more in and getting more out of our jobs—is of such crucial importance.

Fortunately, we don't have to run around tearing our hair out to solve the problem. Nor do we even have to learn productivity from books or lectures. Indeed, that would be a sad estimation of the people of a nation whose history has been in a sense a history of productivity. For productivity is many things. It is the ability of a businessman to attract dollars to build new plants and create new jobs. It derives from intensive research that gives us advanced technology. And productivity is also an impulse.

It's the impulse that helps a housewife organize her day to cook turkey, bake a pie, set the table, get dressed and greet friends and relatives at the door at one o'clock. It's the impulse that makes diagonal paths across vacant lots.

Think about it. How well did you type that last report, repair that washing machine, tune up that engine, finish that blueprint? You have, we have, in our hands, in ourselves, the means to produce not just cars and books and songs and bread, but an entire way of life and economic environment second to none.

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TEACHER'S GUIDE FOR
ESSAY 7

WHATEVER HAPPENED TO THE NICKEL CANDY BAR?

PRIMARY OBJECTIVE:

To establish the relationship between prices, productivity, and the economic well-being of a society.

KEY CONCEPT:

Productivity

TERMS TO KNOW:

break-even point
consumer
economic assets
gross national product
mass production
natural resources
output-per-man-hour
per capita output
producer
profits
research
sales
specialization
standard of living
technology

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GENERALIZATIONS:

Productivity refers to the output of work per worker in a given time span, usually one hour.

Gross national product (GNP), per capita output and output-per-man-hour are ways of measuring productivity in the economy.

As productivity is increased, the overall economic well-being of our society is improved through higher wages, shorter work week, more goods and services, and a higher level or standard of living.

Productivity must rise faster than population increases if a growing society is to improve its overall living standards.

Lowering production costs and operating expenses requires increasing productivity or output-per-worker-per-hour.

Increased productivity brings cost reductions and makes it possible to provide goods and services at lower prices without sacrificing quality.

Improved productivity depends on variables such as worker motivation, plus modern plants and equipment, technology, good management, specialization and mass production.

In competitive markets high productivity is necessary to increase sales and profits, to provide jobs and higher wages and to survive as a business enterprise.

Increased productivity is essential to meet workers' demands for higher wages and shorter hours without raising prices and losing business to competitors.

There is a relationship between a country's rate of productivity and its ability to compete favorably in world markets.

LEARNING EXPERIENCES:

1. Study the consumer price index for the past 10 years to determine which items and groups show the greatest as well as the lowest price increases. Discuss the reasons for price trends in each category. Compare tax increases with price increases of items on the consumer price index.

2. Find several items (such as pocket calculators) which sell at lower prices today than they did five years ago. Discuss the reasons for different items going down in price despite increases in overall price levels.

3. Make a chart on a large chalkboard to show the various costs involved in bringing the following goods and services to the consumer:

- a box of cereal
- an electric comb
- restaurant meal
- a color TV
- a newspaper
- a telephone
- a hair cut
- an airplane trip
- drycleaning a jacket
- a charge account
- service on a TV set
- automobile insurance

Discuss possible ways to cut the costs of each of these items for consumers.

4. Describe what happens to productivity when:

- individual workers fail to produce up to their capacity.
- unions demand higher wages, shorter hours, and fringe benefits, without increasing output-per-worker.
- manufacturers provide workers with the best modern tools and equipment.
- workers are highly motivated to do their best on the job.

5. Research the following laws and report back to the class with a brief report giving a digest of the *intent* of each law. Discuss how the productivity of individual companies and the overall economy can be affected by these laws:

- Occupational Safety and Health Act
- Consumer Product Safety Act
- Equal Employment Opportunity Act
- Federal Energy Administration Act

MORE JOBS? THERE IS A WAY

With today's unemployment, and with millions of young people getting ready to enter the job market, we must make it possible for companies to invest far more of what they earn today so that they can produce more tomorrow

Nine years ago near Lexington, N.C., PPG Industries converted a 150-acre farm into a sleek new factory. Today that factory employs more than 1000 people and produces 140 million pounds of glass fibers a year—everything from draperies to lightweight automobile body parts.

• On Michigan's Escanaba River, wood pulp is fed into one end of a new Mead Corp. paper-making machine that almost fills a building a quarter of a mile long. At the other end emerges a band of paper 25 feet wide. Up to 600 workers harvest the wood for this plant, while 1100 make the paper—annually enough paper to cover a 16-lane highway around the earth at the equator.

• At New Johnsonville, Tenn., DuPont built a plant to produce titanium dioxide, the safe whitener that has replaced lead in paint and is used in scores of other products including paper and textiles. The year it opened, the plant provided jobs for more than 300 local residents. Now, nearly three times that number are on the payrolls—which ran about $14 million last year.

These three factories are the result of what economists call capital investment. Their cost adds up to a huge sum—approximately $250 million. Each was financed with retained earnings (the funds that industry has left after paying all the costs of doing business, including taxes and dividends to stockholders), or borrowed funds, or both.

Such capital investment is what our forefathers called "thinking ahead." When we still lived on farms or in villages, no one but a fool would consume all his garden, herds and flocks. A smart man kept something for breeding stock and seed.

But for some years now our country has lived as if this commonsense wisdom applied to everybody except us. Between 1960 and 1973 we reinvested an average of 13.6 percent of our real gross domestic product in new plants and equipment, compared with 18.2 percent in France, 20 percent in Germany and 29 percent in Japan.

Some 60 to 70 percent of our existing manufacturing capacity has been installed since 1960, versus 85 percent of Japan's. While our government was increasing demand by incurring deficits and voting new money payments to our people, we ran our old, less-efficient factories above their proper operating level. Naturally, this caused costs and prices to spiral.

If we are to pull out of this recession and avoid worse ones, we must begin now to invest much more in job-creating plants and equipment. But how? Most economists believe one solution lies in substantially increasing the investment tax credit, which allows an industry to deduct from its federal income tax a percentage of the cost of new assets and equipment (not including buildings). Congress recently raised the credit from seven to ten percent. Re-

This message is reprinted from a three-page advertisement sponsored by The Business Roundtable which appeared in the August, 1975 issue of Reader's Digest.

spected economist Pierre Rinfret believes that we should permanently enact a 20-percent federal investment tax credit. This would put us on a par with most of our major foreign industrial competitors.

More liberal depreciation allowances would also help. Present tax laws assume useful lives for buildings and equipment during which companies stretch out tax deductions for their cost. But the assumed lives often exceed the period of years when the buildings and equipment are truly competitive. Thus, business frequently finds itself still trying to recover original cost for buildings and equipment which progress has rendered obsolete.

To raise the level of capital investment and create jobs we must also change popular attitudes. Too often when a new factory or power plant is proposed, our response has been "Don't put it here." Nobody can quarrel with the need for informed concern for the environment, but nobody can quarrel, either, with the need for jobs. Consider the exhilarating benefits of capital investment in that PPG Industries plant in Lexington, N.C.:

- Horace Hill, 36, was born on a tobacco farm, had to quit school after the ninth grade, spent three years in the Air Force, got a low-paying mill job. Then PPG hired him and trained him to make and repair the $5000 platinum nozzles from which the molten glass is spun. He now heads a work force of ten.
- Carolyn Blevins, now 25, was working in the spraying department of a furniture factory when she got the chance to go to PPG as an "end finder," a highly skilled job which involves finding thread ends which are then twisted onto bobbins. "I've worked lots of places where they let a woman do a man's job —but they don't pay you for it," she says. "At PPG everybody's treated the same."
- Charles Clark, also 25, the son of a common laborer, is one of four men who oversee PPG's huge glass furnaces. Eight years ago he was among the last to graduate from the black high school before Lexington desegregated all its schools. Today, Clark directs a staff of 40.

The benefits from PPG are felt elsewhere. Surrounding factories and mills found they had to raise their pay scales to compete. For a while, labor was so scarce that Lexington came close to zero unemployment.

According to U.S. Department of Commerce figures, the $10 million PPG paid last year in wages was spent by employes approximately like this: $1.8 million for food; $1.6 million for housing and household operation; $800,000 for clothing; $1.9 million for transportation, recreation and education; $1.9 million for taxes and Social Security; $600,000 for medical care; $200,000 for interest; and $1.2 million for everything else, including savings.

Beyond this, there's a multiplier effect that operates whenever a new plant comes to town. By Bureau of Labor Statistics calculations, each job in manufacturing makes possible three other jobs. So when PPG's Lexington roster last year passed the 1000 mark, the employes were supporting 3000 other workers, from bus drivers to doctors.

Lexington can be proud of the new PPG plant. The low, central red-brick building, flanked by blue and white tent-like wings, is handsome architecturally, and inside, no woman keeps her kitchen looking nicer.

If the United States is to regain its preeminence in the highly competitive industrial world and produce what we need with reasonably full employment and stable prices, thousands of new factories like this one will have to become solid life-giving realities. Thus, it is vital that we allow American industry to recover the costs of new investment much more rapidly than is now possible. Only then will industry have the means to keep our economy prosperously expanding.

MORE JOBS? THERE IS A WAY

PRIMARY OBJECTIVE:

To explain the relationship between capital investment and employment.

KEY CONCEPT:

Capital Investment or Capital Formation

TERMS TO KNOW:

- capital
- capital goods
- cost/benefit analysis
- depreciation allowance
- equity shares
- industrial world
- investment
- investment tax credit
- multiplier effect
- obsolete
- productive capacity
- recession
- retained earnings
- tax deduction

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GENERALIZATIONS:

In a private enterprise or market system, the use of capital (money and goods) to increase productive capacity can create jobs and stimulate economic growth.

Investment tax credits and depreciation allowances are several methods of making more money available which can be invested in productive resources.

Retained earnings are a source of capital which may be used to increase productive capacity.

When productive resources are used to make capital goods such as machines and tools rather than consumer goods such as cars and appliances, productive capacity is usually increased.

Money in the form of savings and investments is used to pay for the capital goods applied to production. In our private enterprise economy, investors own these "tools of production."

The rate at which capital is used to replace and increase productive resources affects economic growth.

The employment rate is related to the economic growth rate. As business grows and expands, more jobs usually become available for more people.

Saving and investing capital goods to increase productive capacity may involve limiting the current availability of consumer goods in order to expand the availability and/or improve the future quality of life for all citizens.

LEARNING EXPERIENCES:

1. Interview an executive with a large company to find out how earnings reinvested in the company affect its productivity, job openings, future earnings, workers, customers and growth.

2. Give four or five specific examples to illustrate the relationship between increasing productive capacity and creating jobs.

3. Pose the following questions for discussion:

- What happens to costs and prices when a country's productive resources are inefficient, out-of-date, or depleted? Give examples.
- What happens when a company with low productive capacity competes with a company with high productive capacity?
- What happens when a country with low productive resources competes in world markets against a country with more efficient productive resources?
- What happens to a country's relative position in world markets when it invests a low percent of real gross domestic product in new plants, equipment and other productive resources?

4. Discuss the advantages and disadvantages of building a new factory or power plant in your area with respect to:

- jobs and employment
- environment
- local taxes
- quality of life
- economic stability
- housing
- community facilities
- schools
- other businesses

5. Explain how a lack of capital investment might affect workers, individual companies, the economy as a whole, investors, and the country in world markets.

6. Interview several local business people and elected officials to get their views on ways to encourage more capital investment in your community. What would the possible advantages of such investments be? The disadvantages?

7. Select a large office building, apartment building, or motel complex in your community and find out how its construction was financed. Research and discuss the role of savers (such as yourself or your family), investors, and financial institutions in the project.

THE MAGIC OF NEW PRODUCTS

Constantly replenished by our system, they provide the ways to make life more comfortable and useful, and often, the way to preserve life itself

A young girl lies unconscious in a Boston hospital. Coursing through her bloodstream is a poison—something she ate or drank unseen by parents or friends. But what has she taken? How much? What antidote to administer? Can answers be found within the ebbing minutes of a child's life? A sample of her blood is rushed by taxi to a nearby laboratory and placed in a machine called a mass spectrometer, hooked up to a computer with a "medical brain." Within seconds it identifies three poisons and notes the approximate amounts of each in the girl's system. An antidote is administered. Two days later the girl is home playing with her friends.

The system that saved her life took three years to develop. Created by Dr. Klaus Biemann, it was made possible because of two products already at hand. The 1800-series computer was developed by IBM and the mass spectrometer by several companies. The results of such long and costly research are, of course, priceless—the saving of untold lives.

Yet this single device is merely one of thousands of new products and product improvements that are the daily dynamics of the private-enterprise system. It is a magic pool of inventiveness into which we dip for a staggering range of goods and services from the most vital to the most frivolous.

We take this all so for granted. But neither life-saving computers nor longer-lasting lipstick comes about by chance. They are the final, and quite amazing, result of capital investment and long-range research in a thriving market of myriad needs and desires. No government, no single planning entity, could possibly keep track of, let alone provide, the material, human and technological resources to fill so many needs and solve so many problems. But American businesses, large and small, provide an endless stream of products to meet the constant demands of our changing world—a reflective window glass that dramatically cuts energy use in office buildings; a respirator so precise it can simulate natural breathing and even be programmed to "sigh" at intervals.

Of course, the benefits aren't always vital or dramatic. Often they are simply satisfying contributions to everyday life—new products and improvements to old ones as "common" and "ordinary" as the clothing on our backs. Two cases in point:

Permanent-Press Washing. The creation of permanent-press fabrics, the result of years of research and many millions of dollars' investment by various chemical and fabric manufacturers, was a tremendous boon to the consumer, making neat appearance and easy care a reality. But this development triggered other, largely unnoticed developments. At the Whirlpool Corp., for instance, engineers began in 1964 to modify their washing machines for the new permanent-press fabrics that were coming on the market. For if permanent-press clothes are washed and rinsed like other fabrics, they crease and wrinkle. A team of technicians began devising a special permanent-press cycle for the company's machines. Required: a hot wash, a cool-down rinse and a

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slowed spin-drying, so that centrifugal force would not set wrinkles.

Engineers and home economists in a laboratory duplicated by machine every step a housewife would take were she washing these fabrics herself by hand. Load after load of permanent-press garments were tested with various wash cycles. Then machines with the best cycles were put into homes for further tests. Competitors, of course, were also at work. When the new machine came on the market, "permanent press" was just a new stop on the control dial for most housewives. But that little change meant months of design and testing.

Fire-Safe Children's Sleepwear. Years before federal regulations prescribed fire-retardant fabrics for children's sleepwear, industry began developing such material. A team of five Monsanto Corp. researchers started work in 1965 at Durham, N.C.

"It was easy to make a fire-retardant fabric," says Graham Chantrey, manager of commercial apparel development, "but hard to make one that would meet consumer requirements—softness, color, texture, durability and reasonable cost, to name a few." There were three ways to go about it. First, introduce fire-retardant particles into the fabric; but these might wash out eventually. Second, treat the fabric externally with chemicals. The third way was to implant the flame-resistant chemicals into the very molecular structure of the fabric. Monsanto chose the last and toughest way.

It took the research team two years to come up with a suitable fabric. And that was only the beginning. Work then moved to the Monsanto textile facility in Decatur, Ala., where extensive testing continued. By late 1971, a promising new fleece fabric had been developed, and design engineers were working on new machines to make it. In mid-1972, a year before government flame-retardant standards were to take full effect, the first flame retardant children's sleepwear was in stores across the country. It represented some seven years of intensive work and an investment of millions of dollars.

Examples like these abound in every industry. We are surrounded by the bounty—digital clocks, antihistamines, instant cameras, unbreakable records, weather-resistant house paints. But there's another big plus from this pool of inventiveness that we sometimes forget —jobs. In the past 30 years, whole new industries employing millions have come about as the result of new and improved products. For instance, 211,000 Americans are employed in the manufacture of computers, jobs that simply would not exist without development of these machines following World War II. Or consider electronics, where newly created devices, particularly the transistors, have brought about 400,000 manufacturing jobs. And then there's the case of the General Electric Corp., with 400,000 employes and an annual payroll of $5.2 billion. How many jobs would it provide today if it had confined itself to its original product, the incandescent light bulb? G.E. currently employs 4000 in lightbulb manufacture and sales.

The stakes are enormous for all of us. Over the next ten years 15 million more people will be in the job market. The careers and challenges they are counting on will come to a great extent from new-product research being done today.

Whether they save a life, or save a little time in the kitchen, the abundant products and services we consider so casually at every hand are the inevitable results of the American economic system. We produce for each other—table lamps and sailboats, face powder and wonder drugs. And in this cycle of innovation and production lie the paychecks, bank accounts, homes—indeed the hopes and dreams of untold Americans.

TEACHER'S GUIDE FOR ESSAY 9

THE MAGIC OF NEW PRODUCTS

PRIMARY OBJECTIVE:

To explore the role of new product research and development in a growing economy.

KEY CONCEPT:

The Importance of Product Research and Development

TERMS TO KNOW:

applied research
basic research
capital formation
capital investment
innovation
obsolescence
research and development (R & D)
technology

GENERALIZATIONS:

In our economic system, product research and development contribute to improved living conditions, more career opportunities, and to a competitive advantage in world markets.

In competitive markets, lack of progress amounts to regression.

In the private enterprise system, the profit motive and competition provide the incentive and stimulus for product research and development.

Market-ready new products or product improvements usually require many years of research and testing.

Advanced research and development and technology used in the development and marketing of new and improved products contribute to a strong national position in world markets.

Capital for product research and development comes largely from private investors, entrepreneurs, reinvested corporate earnings and the federal government.

New products can result in a change in supply and demand within a specific product field.

Tomorrow's career and job opportunities depend to a large extent on today's new product research and development which will create them.

Our standard of living depends partially on continuing innovation, product development and new products that meet the needs and demands of the public in a changing world.

LEARNING EXPERIENCES:

1. Select a new product from one of the following categories:

- personal grooming
- health care
- air travel
- foods
- sports equipment
- automobiles
- housing
- clothing
- education
- recreation
- audio equipment

Research it to find out:

- the demand for the product.
- technology that made it possible.
- benefit to individual consumers.
- benefit to society.
- product(s) rendered obsolete by the new product.
- time and cost involved in the research and testing.
- effects of advertising on acceptance and distribution of the product.
- jobs created by research, development, manufacturing and marketing the product.
- the product's effect on our position in world markets.

2. List the products in your home which would not have been available five years ago. Bring your list to class to compare with others. Pick out several products to discuss. What was used before the new product was available? What are the benefits of the new product to the individual? What are the benefits to society? What are the disadvantages of the product?

3. Check the STATISTICAL ABSTRACT OF THE UNITED STATES (available in most libraries) or some other reliable reference to find out:

- the number of people employed in research and development (R & D).
- the expenditures for R & D from different sectors—colleges and universities, industry, government.
- the amounts spent in different key industries for R & D.

Discuss why the federal government funds certain types of research and development and give examples. Discuss why certain industries spend more than others for research and development. Discuss employment opportunities in research and development and the qualifications necessary to obtain them.

4. As a class project, list up to 100 new products by name and classify them as:

- beneficial to the individual
- beneficial to society
- vital
- frivolous or faddish
- advantageous in world trade

5. Discuss how and in what ways the private enterprise system fosters the development of new products more effectively than other economic systems. Explore how this is different in other systems.

6. Develop a bulletin board using a collage of different newspaper and magazine advertisements which depict some research and development activities conducted by various companies. Include medical and law journals as well as business and consumer publications as sources of materials.

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YOU PAY FOR WHAT YOU GET

Nothing is free: money from Washington, new safety devices for your car, the reduction of industrial pollution. In the final analysis, the bill lands in your lap

The city of New York awoke from a disastrous dream last spring. For decades it had lived beyond its means. Many of its citizens had come to believe they could get something without paying for it—"free" college educations; huge welfare benefits; wage increases for city employes double and triple those in the federal government; extravagant, fiscally unrealistic pensions.

Result: The city found itself $750 million short of meeting its current operating expenses, and was forced to pay close to $2 billion yearly on its past debts. "No other city in the United States has provided such a range of free services and diversions," reported one news magazine.

The only problem was, those "services and diversions" were not free at all. In fact, the most elementary economic truth is: *Few things are really free.* We must always pay the piper when the dance is over.

In our personal lives, this pay-the-piper principle seems so logical, so matter-of-fact, that we seldom question it. Whether we're offering a child piano lessons, buying an air conditioner or choosing steak over hamburger, we weigh the benefits to be derived, and we expect to pay the price.

But somehow we seem to abandon this logic when we venture upon "social goals"—from poverty programs to health care to aid to education. The two most common signs of public departure from economic reality are the statements, "Let the government pay for it," and the currently popular "Tax the big corporations—let *them* pay for it." But who really does pay? Let's examine just one case.

The Union Carbide plant at Alloy, W. Va., which produces ferro-alloys for the steel and aluminum industries, used to be known as "the world's smokiest factory." It poured out 91,900 tons of particles a year, more than that emitted by all of New York City. In 1971, Union Carbide began to take steps to meet a clean-up schedule developed with state environmental officials—and today the air is clear over Alloy. Thanks to a vast complex of environmental equipment that requires almost as much room as the plant itself, emissions have been reduced by 97 percent.

What has the Alloy clean-up cost? Union Carbide spent $33 million for the elaborate anti-pollution devices. Operation and maintenance of the system cost more than $3 million a year. As a result, plant operating costs have risen more than 10 percent. Who will pay this cost? The company initially, certainly. But ultimately the clean-up has to be reflected in the prices of alloys for high-strength and specialty purposes, and for aluminum products. Eventually, all of us, in buying goods made from steel and aluminum, will feel the economic impact.

Most would agree that the clean air was worth the cost. Yet in setting each new social goal, we, as the people who ultimately pay, must ask ourselves: Are the benefits worth the costs?

Such decisions are easily resolved at the personal level. (Is the extra room on the new house, the tape-deck for your car, worth the extra dollar outlay to you?) But when it comes

This message is reprinted from a three-page advertisement sponsored by The Business Roundtable which appeared in the October, 1975 issue of Reader's Digest.

to social goals, we may not be fully aware of the facts, mainly because the decision-making is in the hands of our surrogates—Congressmen and regulatory-agency officials.

Whether the decisions they make for us are wise or unwise is ultimately decided by the voters—although it may take a long time. But whether these decisions will cost us money has already been immutably decided by economic reality. Americans, for instance, have spent an estimated $2.4 billion extra on their automobiles since 1972 to accommodate various government-mandated combinations of wires, lights and buzzers to force them to buckle their seat belts. Ordered "on behalf of" the public, these devices proved to be overwhelmingly unpopular, and the law requiring them was finally rescinded by Congress as a "social goal" not worth the cost.

As you read this, other bills for social goals —many of which we may find admirable—are being totted up. We will pay for what we get, so we must be sure that as a nation we want, need and can afford them.

In the steel industry, for example, we must be prepared for the possibility that new, stiffer government anti-pollution standards will cause steel-industry costs to increase by $25 to $30 a ton over the next eight years. Other costs—energy, raw materials and labor—will also drive prices up. The companies will bear the brunt initially, but *we consumers* will finally pay. (Steel men don't print their own money; they make it by selling their products.) Part of the increased cost of a new car or refrigerator will go toward clearing the air over Chicago, Baltimore, Pittsburgh or Birmingham—wherever steel is made.

Or consider, for instance, the effect of a proposed federal regulation to require tire manufacturers to mold coded information regarding traction qualities, tread resistance, and resistance to generation of heat into the side of each new tire. Some companies estimate that this regulation will add at least 75 cents to the retail cost of each tire. In other words, according to the manufacturers, if you buy four tires, you will pay $3 for both symbols you can't understand and additional testing that will add nothing to the safety already required by previous regulations. Presumably, astute consumers will bone up on traction, wear and heat-generation information *before* they buy their tires. We must ask ourselves: Is this regulation really worth the cost?

Another example: flammability standards for upholstered furniture suggested by the Consumer Product Safety Commission. The regulations, aimed principally at cigarette-caused fires, are expected to increase prices of upholstered sofas and arm-chairs by up to 25 percent. The furniture industry fears that the standards could eliminate about 70 percent of fabrics now made for upholstery. If we, through our surrogates, decide that it is correct for the government to impose such flammability standards, then we must be prepared to pay the cost the next time we buy a couch. And we may not like the feel or look of the newer, nonflammable fabrics.

What all this means is that we, as part of a complex and interrelated economy, cannot merely wish for or advocate some benefit for a "remote" part of our society. We must *also* be prepared to accept a part of the financial burden. Are we prepared to pay higher electric bills when we ask a utility in our area to provide more generating capacity with less harm to our environment? Are we committed to reducing auto emissions and increasing auto safety to the extent that it may add as much as $1000 to the price of our cars?

Only when we realize our fundamental financial role in the laws passed and regulations promulgated by our public officials will we be sure to set wise and realistic goals.

TEACHER'S GUIDE FOR ESSAY **10**

YOU PAY FOR WHAT YOU GET

PRIMARY OBJECTIVE:

To understand that government spending is ultimately the taxpayers' decision and financial responsibility: that "only people pay taxes" through one means or another.

KEY CONCEPT:

The Cost of Government Services and Regulations

TERMS TO KNOW:

cost-benefit accounting
economic reality
environmental standards
government intervention
government spending
private sector
public sector
regulations
regulatory agency
revenue sharing
safety standards
social goals
social responsibility

GENERALIZATIONS:

Government provides certain services and goods for all citizens through tax revenues.

The goods and services provided by government are generally those such as police and fire protection, education, certain health services, and highways, that would be difficult or impossible for individual citizens or the private sector to provide.

As our economy and society become more complex and greater in size, increased responsibility for public welfare is placed in the hands of government.

As the marketplace and the government become greater in size and more complex, consumers and citizens tend to feel more removed from the decision-making process.

Individual citizens, by their votes for specific candidates and programs, determine what will be provided by government and for whom.

Government action or regulation in one sector of the economy will affect other sectors.

To make intelligent and reasonable decisions on the role to be played by government in the economy, the benefits and disadvantages of government action and spending need to be carefully examined.

There is a relationship between government spending and regulation and economic growth, world trade and taxpayers.

To achieve a reasonable rate of growth with price stability, citizens need to develop competence in making economic decisions in the marketplace and in the services and benefits requested from government.

LEARNING EXPERIENCES:

1. Ask students to list at least ten facilities or services they have used within the last week which were provided by one of the three levels of government—federal, state and local. The list could include sidewalks, highways, library, school, parks, police services, U.S. Mail, etc. Conduct a study to find out the cost of the various services and facilities on the list and the portion provided by local, state and federal government. For services paid by property tax (see a tax bill for a breakdown), find out the tax rate in the community in terms of dollars paid per $1,000 of property value for both residential and commercial property. Discuss why the services on the list are provided by government rather than by private business or individuals.

2. Locate—in your community or a nearby area—an environmental problem (water, air or noise polution; industrial infringement on residential areas; parking lot) resulting from the operation of a municipal or business facility such as a utility plant, hospital, airport, factory or agricultural operation. Determine the seriousness of the problem and give possible solutions. Compute the cost of various solutions. Discuss the ultimate cost of the offending facility to the taxpayer in higher taxes or to the consumer in higher prices.

3. Identify a service or facility that your community does not have—such as a youth center, paramedic ambulance service, library on wheels, bus service, etc. As a class, conduct a feasibility study on one of these items. Work with community leaders to find out the desire and need for the service or facility, the initial cost, possible ways to finance it, the operating cost and the ultimate cost per taxpayer. Discuss whether it should be paid for by public or private funds.

4. As a class, decide on an area of government budgets which interests the majority of class members, i.e. state education budget, county welfare budget, city parks and recreation budget, etc. Write to the political official who administers that budget and request a summary of the budget for the current year. Study sources of revenue, receipts and outlays. Discuss which expenditures benefit you and your community most. Discuss the opportunity cost of different government programs. Study how spending decisions are made by state and local governments and how individuals can register their preferences in the allotment of funds.

5. Find out from your local government (city or county) how it has spent its revenue sharing money for the past two years. Divide the class into committees to study the need for and the effect of these expenditures. Make field trips to see the results. Find out other alternatives which were discarded. Do you agree with the decisions? On the basis of this research, develop a class debate on "The Revenue Sharing Act Should be Renewed by Congress."

6. Select recent examples of government regulations that affect you in the marketplace such as flame retardant requirements for children's sleepwear, nutritional labeling, auto safety features required by law. Analyze them and develop a chart to determine:

REGULATION(S)	COST	WHO BENEFITS	WHO PAYS

7. Interview your mayor, city manager or city or town clerk to determine how tax dollars collected in or by your community are returned to the community in the form of various services. Determine, if possible, what the administrative or "handling" costs are compared with tax dollars returned.

8. Collect data on the cost of vandalism at your school. Determine who pays for this damage. When vandalism of public property occurs, what is the meaning of the phrase: "I destroy my own property "?

TOO BIG OR NOT TOO BIG?

It's time for facts—rather than illogical fears—about "big" business

A funny thing happened to John Hertz's little car-rental lot in Chicago . . . to Roland H. Macy's "fancy dry goods" store in New York . . . and to the Hoover people in Ohio, once they started making that tin and wood "electric suction sweeper."

Their small businesses became *big* businesses.

Why? Because they filled a need. They did the job. People liked the way they did business, and their businesses grew.

Such growth, a logical and even necessary phenomenon in the private-enterprise system, seems sorely misunderstood today. "A growing volume of criticism equates bigness with badness," says Randall Meyer, president of Exxon Co. U.S.A. "Big business" is portrayed as a monster born full-grown, determined to snuff out little competitors and run roughshod over consumers.

Neither the historical record nor the economic and social realities of America today support such a view. Big business has not "cornered" the U.S. marketplace and workforce. Bureau of Census statistics show that only 12,169 of more than three million U.S. businesses are "big"—that is, employ more than 500 people—while there are 1,722,250 small businesses with one to three employes. The "big" businesses employ 15.6 million workers out of a total work force of 86.6 million.

Nor has big business cornered the nation's wealth. The approximately 5 percent of American wealth (property, plant and equipment, and inventories) held by U. S. manufacturing corporations with assets of $1 billion or more is slightly *less* than those companies had a decade ago.

Fears of big business often stem from lack of understanding of the basic economic reasons why some businesses grow big and others stay small. Big jobs, like the production of steel, chemicals or great quantities of such complex products as automobiles or television sets, require huge investments of capital, raw materials and managerial and technical skills. Indeed, looking to the world problems of energy, natural resources and the environment, one must conclude, as has noted historian C. Northcote Parkinson, that big business must grow bigger because "the research that underlies the discoveries, whether geophysical in Alaska, or chemical in West Germany, demands a scale of investment that is beyond the reach of the family firm."

But sometimes even relatively simple products, like razor blades or chocolate bars, require "bigness" because of the enormous markets that exist for them. Then, too, we are living in the age where the efficiency of bigness, the "economy of scale" as it is called, is vital if companies are to remain competitive. This is especially true where the competition consists of huge foreign combines backed heavily by their governments' treasuries. General Motors may account for 43 percent of U.S. auto sales, but it has only 22 percent of the world market. U.S. Steel is a domestic giant, but it has a tough time against such foreign concerns as Japan's Nippon Steel, the world's largest steelmaker. This same situation is faced by big American companies in other fields as they compete in a global market against giants such as Royal Dutch Shell, in

This message is reprinted from a three-page advertisement sponsored by The Business Roundtable which appeared in the January, 1976 issue of Reader's Digest.

petroleum and chemicals; Unilever, the huge British-Dutch food and detergent firm; Nestlé, the vast Swiss corporation. The enormous research and development required to compete in such markets is simply beyond the means of small companies.

On the other hand, there are innumerable tasks—the sale of consumer goods and services, home and automobile repairs, restaurants to name a few—that can be handled efficiently by both small and large businesses in a local area.

It is important to realize that businesses big and little carry out their tasks in a vital atmosphere of *inter*dependence. Small businesses, for example, would be much less prosperous without the tools, raw materials, finished and semi-finished products they purchase from big firms. As Leo McDonough, executive vice president of the Smaller Manufacturers Council (comprising 575 companies), says, "If there weren't a U.S. Steel or a Jones & Laughlin spitting out fantastic amounts of steel and keeping prices down, our basic-materials costs would be out of reach."

But big companies need little companies, too. In a typical year, 3M Co. uses products and services from more than 30,000 small businesses—such as Gofer Electronics Co., in Minneapolis, and Calumet Screw Machine Co., in Chicago. Hewlett-Packard Co. deals with 6000 small American companies in its electronics business.

But what about competition? Aren't the big boys stamping it out and virtually dictating prices? No. There are many energetic, clever people making a success in business despite the presence of "big guys" in the same field. Robert Cuff, president of Entron Controls, Inc., in Carol Stream, Ill., proudly points out that his industrial-control manufacturing firm can and does compete with the giants in certain areas. It has even sold control devices to some of General Electric's own corporate divisions. Says Cuff, "They buy from us—even though GE makes a similar product—because we can build it at a lower price and give faster delivery."

Remarks Irvine Robbins of giant Baskin-Robbins Ice Cream Co.: "Sometimes when we get big, we get a little lazy, a little complacent." When his company grew big by concentrating on "walk-in, walk-out" ice-cream stores, Farrell's of Portland, Ore., moved profitably into the same market as BR with sit-down soda-fountain parlors. "They woke us up," says Robbins. "So we started concentrating on the fountain end of our business. The result was that we improved a little, and Farrell's is doing fine, too."

As to the charge that big business artificially keeps prices high, the facts again rip apart the rhetoric. A study by economist J. Fred Weston, of the University of California, Los Angeles, reveals that the heavily concentrated industries (big business) have held prices *down* better than smaller and less concentrated ones. In industries where the top four companies had at least 75 percent of the business, prices rose an average of 47 percent during the inflationary period 1967-1975. But in the least-concentrated sectors of industry, prices rose 70 percent in the same period. Leonard Woodcock, president of the United Auto Workers, admits: "The old anti-trust notion that, if you break things up into small competitive units, you will have lower competitive prices may be wrong. General Motors, the biggest car producer, is without question the most efficient and most able to hold down the cost of its products."

Whatever their size, in the end, businesses in America must pass the test imposed by the most affluent and sophisticated consumers in the world. Any business must affirmatively answer those old questions: Does it do the job? Does it deliver the goods? Does it satisfy *you*?

TEACHER'S GUIDE FOR
ESSAY **11**

TOO BIG OR NOT TOO BIG?

PRIMARY OBJECTIVE:

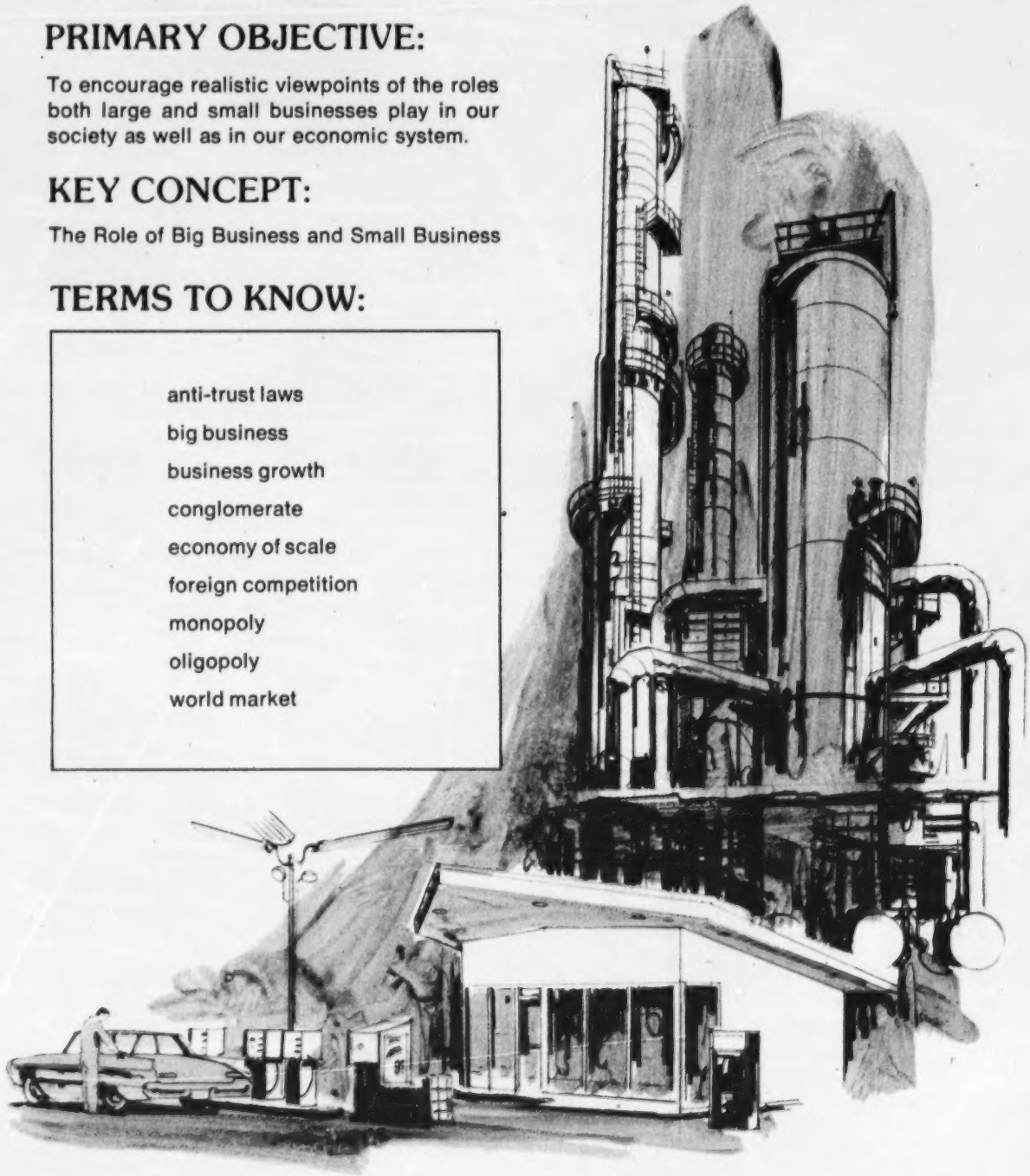
To encourage realistic viewpoints of the roles both large and small businesses play in our society as well as in our economic system.

KEY CONCEPT:

The Role of Big Business and Small Business

TERMS TO KNOW:

anti-trust laws
big business
business growth
conglomerate
economy of scale
foreign competition
monopoly
oligopoly
world market



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GENERALIZATIONS:

Certain types of production, because of quantity demands or complexity, require great investments of capital, raw materials, managerial ability, and technical skills, which large scale businesses can provide.

Certain types of mass production—assembly lines, automation, specialization, computerization—can most efficiently be achieved by large scale businesses.

Larger businesses can effectively employ those economies of scale which increase productivity and lower cost per unit.

Large and small businesses play an essential role in maintaining a healthy, growing economy.

Big business and small business are interdependent on one another. Large businesses depend on small business to provide a link to consumers and to supply goods and services needed for mass production and mass distribution. Small businesses depend on big business to provide both consumer goods and services for sale and capital goods needed to operate small firms.

Large businesses make a significant contribution to economic growth and higher living standards for more people through the jobs they provide, research and development, technological advances, competitive advantages in world markets, efficient use of by-products, and efficient use of productive resources.

LEARNING EXPERIENCES:

1. Name five of the largest U. S. corporations and five local small businesses. Compare the large with the small businesses as to prices, services, operating policies, merchandise and personnel. What are some advantages of buying from large businesses? What are the advantages of trading with small firms? How do they complement each other? To what extent do they compete?

2. Most big businesses started as small firms. Select any major U.S. corporation and study its history from beginning to the present day. What factors contributed to its growth? What problems developed with bigness? What does it do that a small business could do as well?

3. Separate the class into small groups and hold buzz sessions on "What if all *small* businesses disappeared . . .?" Have a representative of each group report back to the class and list the possibilities on a chalk board. Repeat, using the topic, "What if all *large* businesses disappeared . . .?" How would we be affected as individuals? As a nation? As a world?

4. Interview several local manufacturers and merchants to find out how they interact with big businesses. Do they buy goods and services from large manufacturers to sell to their customers? Do they buy tools and equipment from big businesses to use in operating their smaller firms? Do they compete with big business for consumer dollars? Do they sell goods and services to major corporations?

5. Draw up a chart to illustrate the areas in which large businesses can be most effective and areas in which small businesses can be most effective.

6. Assuming that the United States benefits from competing favorably in foreign markets, discuss the role of big business with respect to foreign trade.

7. Investigate and list common fears—real and imagined—that people have toward big business with respect to:

- monopoly
- oligopoly
- price fixing
- limitations on competition
- environmental protection
- unfair competition
- new entries in certain industries
- control over raw materials
- weakening of consumer sovereignty
- quality of life

To what extent are fears about big business justified and supported by fact in those areas? What safeguards are built into our system? How does government regulate "bigness" in industry? Give facts and figures to support your answers.

WHY COMPANIES DO BUSINESS ABROAD

Despite the extraordinary contribution of multi-national corporations to our standard of living, the clippers are out in Washington to shear their worldwide operations

Americans are hearing a lot these days about multi-national corporations, but for some reason we rarely hear what they mean to our economic growth and prosperity, or even what they are.

A multi-national is a corporation that does a substantial amount of its business in other countries, either on its own or in partnership with host-country corporations. Multi-nationals, American and foreign, are everywhere. They mine bauxite in Australia, make sewing machines in Britain, sell insurance in Bangkok, operate banks in Iran. There are thousands of them, but generally the term is reserved for the larger, more successful and, so, more conspicuous companies. They also tend to be the corporations that pay the highest wages, and sell products for the lowest prices.

In an earlier era, corporations often set up overseas operations for strictly economic reasons—lower transportation costs, for example, or a break on wages. Today, however, many companies find that they can't enter, or remain in, a foreign market unless they build a factory or set up an office there for at least a part of their operations.

Mighty General Electric, for example, was called in not long ago by the Brazilian government and told that supplying locomotives from its Erie, Pa., works to the growing Brazilian market was costing Brazil too many dollars and that it was also time some Brazilians worked on GE locomotives. GE negotiated a compromise. Now, in an assembly plant in Brazil, local workers put on the wheels and other outer parts. The drive assembly and controls still come from Erie. Both sides got what they wanted: Brazil saves on dollars and gets factory jobs, while GE keeps the high-wage, high-technology part. If the company had not cooperated, says chairman R. H. Jones, "complete locomotives would now be made in Brazil in plants financed by a Japanese or European company."

When companies establish foreign operations, it nearly always means a surge in the number of their U.S. employes. In 1950, Caterpillar Tractor Co. was struggling to fill its U.S. and foreign orders from two American plants with 25,000 employes. Today there are 12 overseas Caterpillar plants employing 27,000. But, meanwhile, the company has grown to 14 U.S. plants employing 62,000—of whom some 24,000 owe their jobs solely to foreign orders.

A promising foreign market can be lost irretrievably by *not* setting up a foreign factory at the right time. In 1964, Du Pont was exporting 34 million pounds of polyethylene to Europe, but decided not to build a plant there. Its European sales of polyethylene soon dropped to the vanishing point, while its foreign competitors moved in and built the market up to four billion pounds a year—"a growth," Du Pont says, "that the U.S. economy and its workers did not share in."

Du Pont learned the lesson well. Today it has 44 principal foreign subsidiaries or affiliated companies employing nearly 32,000 people. Total 1974 sales outside the United States amounted to $2.17 billion, of which over $800 million were U.S. exports. As a result, at least 15,000 new jobs were created in the United States.

This message is reprinted from a three-page advertisement sponsored by The Business Roundtable which appeared in the November, 1975 issue of Reader's Digest.

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These and numerous other examples underline the fact that multi-nationals are good for the U.S. economy, consumer and worker. A U.S. government study covering 300 of the major multi-nationals reveals that when these companies were rapidly expanding employment abroad, they also raised their U.S. work force at a rate of 2.7 percent a year—well above the average growth in American industry. At the same time, they averaged paying their U.S. workers substantially *more* per hour than U.S. companies *without* foreign operations.

This is only part of what multi-nationals do for us. They are in the forefront of helping the nation compensate for rising costs of basic raw materials we must import, particularly petroleum. By selling abroad, they earn large amounts of foreign currencies we need to buy scarce materials from other countries. In addition, in 1974, American companies operating abroad returned home royalties and foreign earnings of $21.4 billion—three times the outflow of dollars for new foreign investment.

All in all, without multi-nationals the extraordinary worldwide rise in living standards would have been slowed. As U.S. Ambassador to the United Nations Daniel P. Moynihan has declared: "The multi-national corporation, which combines modern management with liberal trade policies, is arguably the most creative international institution of the 20th century."

Indeed, those countries in Europe and Asia making the most progress are the ones that have encouraged multi-nationals—theirs as well as ours.* Despite this, the clippers are out to shear the U.S. multi-nationals of their foreign connections.

A while back, the hue and cry was that multi-nationals "export American jobs." When this proved unfounded, critics seized upon the issue of bribery of foreign officials by the multi-nationals. It is true that some U.S. corporations have been involved in payoffs abroad—usually to avoid confiscation or loss of business to foreign competitors. This is certainly a practice contrary to good business ethics. But unethical practices by a few companies hardly justify punitive tax proposals now coming to the fore in Washington, which would all but put multi-nationals out of business.

Currently, U.S. overseas businesses pay the full 48-percent U.S. corporate income-tax rate when they bring home their profits after paying all taxes in the countries where they operate. These taxes generally are now as high as ours, and companies are allowed to offset them against the taxes on foreign, but not domestic, income that would otherwise be paid to the U.S. Treasury. This avoids double taxation. Foes of the multi-nationals would have them pay the foreign taxes and immediately give almost half of what was left of their earnings to the U.S. Treasury. This would mean an effective tax rate of almost 75 percent. Since no other country does this, our multi-nationals could not survive under the burden.

The economic effect here and abroad of such a move is dismal to contemplate. The value of our vast foreign investments would be sharply reduced, and world trade undoubtedly would suffer.

As the recent global recession has reminded us, when business turns down, no man is an island. We must keep in mind that multinational corporations are nothing more than business organizations which make up for the fact that raw materials, products, services, know-how and labor are very unevenly distributed over the globe. They bring together all these economic resources to help all people work together to create a peaceful and prosperous world.

**At last count, some 3500 U.S. corporations had more than $125 billion worth of direct investments abroad. Foreign internationals had $70 billion—some $20 billion of it in the United States.*

TEACHER'S GUIDE FOR ESSAY 12

WHY COMPANIES DO BUSINESS ABROAD

PRIMARY OBJECTIVE:

To understand the vital role of multi-national corporations in both domestic and foreign markets.

KEY CONCEPT:

Multi-national Corporations

TERMS TO KNOW:

balance of payments
balance of trade
currency exchange
domestic trade
export
foreign currency
foreign subsidiary
free trade
import
import quota
international trade
punitive tax
specialization
tariff
trade barriers
value of the dollar

GENERALIZATIONS:

All countries of the world are becoming increasingly interdependent for economic goods and services for their own well-being.

Multi-national corporations tend to stimulate U. S. exports, improve the U. S. balance of trade and make a positive contribution to the U. S. balance of payments.

Most countries depend on other countries for certain goods and services which they cannot produce in their homeland.

International trade makes it possible to allocate productive resources efficiently to the extent that each nation is motivated to specialize in producing those goods and services it can produce most efficiently with its own resources.

The efficient allocation of productive resources made possible by world trade contributes to the higher living standards of those nations able to trade in world markets.

When a country's exports pay for its imports, a favorable balance of trade is achieved.

Multi-national corporations help contribute to a strong U. S. position in world markets.

Global business creates common interests among nations and can be a force leading to greater world unity.

LEARNING EXPERIENCES:

1. Ask each student to go through his or her household and list at least ten items that were made in other countries and imported into the U. S. Compile the lists and make categories of the items—clothing / radio-TV-sound systems / automobiles / home furnishings / food products / cosmetics / home appliances, etc. In what product categories are imports most common and in what countries are they produced? In what product categories do American-made products dominate? Investigate to find the reasons why.

2. Find out what American-made products and raw materials are most commonly and successfully exported. To the extent that exports must pay for imports, what do the economy and the consumer have to gain from U. S. exports?

3. In world trade, a country has a surplus or favorable balance of trade when the value of its exports exceeds the value of its imports. An unfavorable or deficit balance of trade results when the value of imports exceeds the value of exports. Ask students to make up an import/export chart to show the types of transactions that determine our balance of trade position. For example, the export side might include: wheat sales to Russia; military arms sales to another country; profits of U. S. companies located abroad; income of U. S. performers earned abroad; tuition paid to U. S. colleges by foreign students; and interest paid on U. S. business loans to other countries. On the import side might be included: airfare of U. S. citizens on foreign airlines; foreign cars sold in the U. S.; coffee purchased from South America; and profits of foreign companies earned in the United States.

4. Select one of the major U. S. multi-national corporations to study in depth. Contact the company for information and refer to articles about the company which have appeared in business newspapers and magazines. Try to find out:

- when, how and why the company established foreign operations.
- how the company's foreign and domestic operations differ.
- the trade position of the company in host countries, in world markets and in the U. S.
- the problems involved in establishing and maintaining foreign operations.
- the foreign currency earned by the company which strengthens the U. S. balance of trade position.
- the tax laws and other regulations imposed on the company by the U. S. government and by host countries.
- job opportunities with the company, both in the U. S. and abroad.

5. Balance of payments refers to a summary of all financial transactions between a country and the rest of the world including those made by individuals, business and government. A surplus balance of payments occurs when the inflow of foreign currency exceeds the outflow of a country's own currency. A deficit balance of payments occurs when the outflow exceeds the inflow. Make up an inflow/outflow chart to show the types of transactions that determine our balance of payments position.
Note: U. S. exports will be on the inflow side, while imports will be on the outflow side. Other outflow items may include U. S. aid to underdeveloped countries, military spending abroad, private investment abroad.

6. Discuss the difference between the balance of trade and the balance of payments. Explain how a surplus balance of trade, such as the U. S. has had in some recent years, can help offset a deficit balance of payments. How does the multi-national corporation fit into this picture?

REFERENCES

For timely, up-to-date information about our economic system as well as financial news in general, refer to financial articles and sections in local newspapers as well as weekly magazines such as *Time, Newsweek* and *U. S. News and World Report*. You may also wish to refer students to the following specialized business and finance publications which are available in most public libraries:

BARON'S NATIONAL BUSINESS AND FINANCIAL WEEKLY

BLACK ENTERPRISE

BUSINESS AND SOCIETY REVIEW

BUSINESS WEEK

FORBES

FORTUNE

MONEY

NATION'S BUSINESS

WALL STREET JOURNAL

Other sources of a variety of publications related to the key concepts in this manual include:

THE AMERICAN BANKERS ASSOCIATION
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Social and Economic Statistics Administration
Washington, DC 20233

U. S. DEPARTMENT OF LABOR
Bureau of Labor Statistics
Washington, DC 20212

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GLOSSARY OF ECONOMIC TERMS AND PHRASES

ACCOUNTING PROFIT — any amount earned in excess of the cash amount invested to earn it.

ANTI-TRUST — the laws and legal actions designed to insure fair trade and competition and to prevent business monopolies.

ASSETS — possessions of value, usually measurable in terms of dollars.

AUTOMATION — use of self-operating machines to perform many processes within a manufacturing system.

BALANCE OF PAYMENTS — a statement of the total financial transactions of one country with other nations for a specific period of time, usually one year.

BALANCE OF TRADE — the net difference between the value of a country's imports and exports of goods and services.

BIG BUSINESS — a business enterprise with total assets of one million dollars or more.

BOND — certificate or evidence of debt issued by corporations and governments involving a promise to pay a certain amount of money on a specific date and interest at a stated rate.

BUDGET — a plan for the use of money based on goals and expected income and expenditures.

BUSINESS CYCLE — an expansion and contraction of the economy and business activities at periodic intervals.

CAPITAL — wealth in the form of cash and securities or property and equipment which can be used to produce or create more wealth.

CAPITAL FORMATION — the use of money and other resources to increase inventories and to produce new plants, tools and equipment which will improve productive capacity.

CAPITAL GOODS — the tools, equipment and machinery used to produce other goods or to provide services.

CAPITAL INVESTMENTS — an expenditure for plant or for equipment which adds to the value of the property of a business, rather than for operating expenses.

CAPITALISM — an economic system in which the means of production are privately owned and controlled and which is characterized by competition and the profit motive.

CAVEAT EMPTOR — *(Latin)* let the buyer beware.

CAVEAT VENDITOR — *(Latin)* let the seller beware.

COMMODITY — any salable item in commerce or trade such as goods, merchandise, products.

COMMON STOCK — a share in the ownership of a corporation.

COMPANY — association of persons who have come together with capital, skills and time to perform some commercial action such as production, distribution, selling, promoting, etc.

COMPETITION — continuing struggle among business firms to gain a larger share of a given market or for other business advantages.

CONCENTRATED INDUSTRY — an industry in which a few large companies dominate the manufacture and sale of a given product line, such as automobiles.

CONGLOMERATE — a big business made up of several unrelated industries or product lines.

CONSUMER — one who uses goods and services; buyer of goods and services.

CONSUMER GOODS — products used to meet immediate consumer demands rather than being used for further productive purposes.

CONSUMER PRICE INDEX — a measure of the cost of living as tabulated by the U.S. Bureau of Labor Statistics based on the actual retail prices of a wide variety of consumer goods and services at a given time and compared to a base period which is changed from time to time.

CONSUMER PROTECTION — a type of aid and protection related to consumer interests provided by law, by government agencies and by private organizations and individuals.

CORPORATE INCOME TAX — tax levied on the taxable income of corporations.

CORPORATION — a legal entity created under law which may enter into agreements, carry on business activities, perform a variety of functions and be subject to legal action and law suits. Legal action against a corporation may not be extended into private interests of its officers, directors, or shareholders.

COST-BENEFIT ANALYSIS — measurement of costs of a specific procedure, program, product or service in terms of the benefits it will produce for the cost.

COST OF LIVING — the amount of money needed to buy goods and services required to maintain a certain standard of living.

COST-PUSH INFLATION — price increases stemming from production cost increases rather than increased demand.

CURRENCY — any freely circulating and widely accepted medium of exchange; the official money of a country.

CUSTOMER — one who buys or does business with a particular store or firm; person who makes a purchase.

CUSTOMER EXPECTATION — the qualities and performance potential that buyers expect from goods and services.

CUSTOMER SATISFACTION — a buyer's acceptance of goods and services purchased as useful and suitable in meeting the needs for which they were purchased.

DEBENTURE — usually an unsecured promise to pay issued by a company or corporation.

DEBT — something owed by one person to another or one company or government to another.

DEFAULT — failure to meet the terms of an agreement—usually referring to failure to make payment on a debt according to terms set up in the contract.

DEFICIT FINANCING — a situation in which government spending exceeds government income, with the difference covered by borrowing.

DEFLATION — a decline in price level of goods and services—with resulting increase in purchasing power of the dollar.

DEMAND — the total quantity of goods and services buyers are willing and able to buy at various prices at a given time.

DEMAND-PULL INFLATION — an increase in the price level caused by a greater demand for goods than the ability to supply them.

DOUBLE DIGIT INFLATION — price level increases in double digit amounts—10 percent or more.

DEPRECIATION — a decrease in the value of an item over a period of time due to age, wear and use.

DEPRECIATION ALLOWANCE— the amount that may be deducted from income tax for the decreasing value of property and equipment used in business or for the purpose of producing income.

DEPRESSION — a severe decline in business activity frequently accompanied by high unemployment, low production, curtailed consumer buying, restricted credit, etc.

DEVALUATION — a deliberate reduction in the value of a unit of money as related to gold, foreign currency, or other accepted standard.

DIVIDEND — the amount of money paid out of earnings or proceeds from the sale of property which is divided among shareholders or creditors—usually it represents a share of profits paid in proportion to the share of ownership.

DOMESTIC — generally refers to anything manufactured or originating in the country where it is retailed, as opposed to goods imported from other countries.

DURABLE GOODS — products with a relatively long useful life such as home appliances, furniture, autos, etc., as opposed to items consumed over a short period of time such as food, utilities, household supplies or clothing.

ECOLOGY — a study of the relation between living organisms and their environment.

ECONOMIC FREEDOM — individual rights to make economic decisions freely—where to work, where to spend, what to buy, to own property, to enter into or dissolve a business.

ECONOMIC GOOD — relatively scarce goods or work used by people, business and nations to satisfy wants.

ECONOMIC GROWTH — a steady increase in a nation's total output, often measured in per capita gross national product (GNP).

ECONOMIC INCENTIVE — money reward in the form of income for labor, profit for innovation and economic risks, rent and dividends, as a return for use of capital.

ECONOMIC INDICATOR — measurement of some economic activity which is useful in evaluating the state of the overall economy.

ECONOMIC PROFIT — the profit left after all implicit and explicit costs of production and operating are paid, taking into account alternative uses of the resources applied to a business.

ECONOMIC SYSTEM — the method by which a society deals with the economic problems of production, distribution and consumption of goods and services.

ECONOMICS — the study that deals with the production, distribution and consumption of goods and services and the related subjects of labor, finance, taxation, etc.

ECONOMY OF SCALE — an increase in the factors of production, as in mass production,

resulting in a proportionately greater increase in productivity or output per unit of production.

ENTREPRENEUR — a person who assumes the risk and responsibility for starting and operating a business.

ENVIRONMENTAL PROTECTION AGENCY — a U.S. government agency established to safeguard the environment.

EQUITY SHARES — securities (stocks) representing an ownership interest in the issuing company.

EXCHANGE RATE — the price that a country must pay to exchange its currency for the currency of another nation.

EXPORT — to send merchandise or goods out of the country in which they originate; the item itself sent out of the country.

FACTORS OF PRODUCTION — the resources necessary to produce goods and services— land, labor, capital and enterprise.

FEDERAL RESERVE SYSTEM — a central banking system composed of one central bank in each of 12 Federal Reserve Districts, a Board of Governors, a Federal Open Market Committee, a Federal Advisory Council and member banks, with the purpose of controlling the nation's money supply in order to achieve economic stability; it regulates banking and controls currency.

FEDERAL RESOURCES — resources belonging to the federal government.

FINANCIAL INSTITUTION — a business engaged in money saving, lending, and borrowing for the purpose of channeling funds into investments for productive activities.

FISCAL POLICY — federal government action on taxation, spending and public debt designed to promote full employment, price stability and economic growth.

FIXED INCOME — income which is fixed definitely in amount for a long period of time by law, contract, dividend rates, etc.

FOREIGN COMPETITION — competition with producers and products of other nations; imported products and resources compete with those produced in the domestic market; U.S. exports compete in world markets with products of other countries.

FOREIGN CURRENCY — money of other countries.

FOREIGN SUBSIDIARY — a company in another nation wholly or partially owned and controlled by a company outside that nation.

FRANCHISE — government permission to operate a certain type of public interest business such as a public utility as a monopoly or a partial monopoly; an agreement between a supplier and a distributor giving the distributor the right to sell the goods or services of the supplier.

FREE ENTERPRISE SYSTEM — an economic system characterized by private ownership of property and productive resources, the profit motive to stimulate production, competition to insure efficiency, and the forces of supply and demand to direct the production and distribution of goods and services.

FREE MARKET — an open market or exchange in which buyers and sellers operate without restrictions.

FREE TRADE — absence of tariffs and regulations designed to curtail or prevent trade among nations; an atmosphere in which impediments to trade among nations are removed.

FRINGE BENEFIT — any of a variety of indirect, non-cash benefits provided to employees by employers in addition to regular wage or salary compensation.

GOODS — movable personal property not including livestock or such intangibles as leases; any manufactured items, merchandise or commodities bought and sold in the marketplace; tangible items which are useful in satisfying human wants; types of goods include *durables* which are goods with lasting value, *non-durables* which are products with relatively short useful life, and *semi-durables* which are products with a useful life somewhere in between durables and non-durables.

GOVERNMENT INTERVENTION — government controls and regulations that intervene in the market by redirecting the forces of supply and demand.

GOVERNMENT SERVICES — services provided and paid for by federal, state or local governments.

GOVERNMENT SPENDING — expenditures by federal, state and local governments for government operations and for services, facilities and programs provided by government for the people.

GROSS NATIONAL DEBT — total indebtedness of the federal government.

GROSS NATIONAL INCOME — the sum total of all the wages, profits, dividends, interest and rents paid out in the country within a given period, normally one year.

GROSS NATIONAL PRODUCT (GNP) — the total market value of all goods and services produced by the nation's economy—including the total purchases of goods and services by private consumers and government, gross private domestic capital investment and net foreign investment—measured normally on the basis of one year.

GROSS PROFIT — the difference between the selling price and cost of the item sold.

IMPORT — to bring goods in from another country—also the item brought in.

IMPORT QUOTA — limit on the quantity of a specific product that may be brought into the country during a specific time period.

INCOME TAX — a tax on the net income of individuals or businesses; the largest single source of federal revenue.

INDUSTRY — non-agricultural and non-distributive business activity including manufacturing, processing and mining; also any group of companies engaged in the same type of operation or involved with the same products such as the food industry, textile industry, etc.

INDUSTRIAL WORLD — that part of the world or those countries in which highly developed industries play an important, often dominant, role in economic activities and in production.

INFLATION — an increase in prices or a decrease in the value of money resulting from an increase in the amount of money in circulation relative to the amount of goods and services available.

INSURANCE — a way of spreading and sharing financial risks; a form of contract called a policy, in which the insurer agrees to pay an agreed amount of money to the insured in the event of certain financial losses resulting from specific hazards or perils outlined in the policy; the insured agrees to pay a set premium, either in installments or a single sum.

INTERDEPENDENCE — mutually dependent; dependent on each other.

INTEREST — the price paid for the use of money over a period of time, usually stated as an annual percentage rate of the amount borrowed or used.

INTERNATIONAL TRADE — trade carried on among different nations; world trade.

INVENTOR — one who creates something new, such as a device, an idea, a process, a product.

INVENTORY — a list of goods, possessions and property on hand.

INVESTMENT — the act of putting money into property or securities for the purpose of receiving income or for appreciation in value.

LABOR — work, also workers collectively, as distinguished from management.

LABOR FORCE — all people who work or seek work .

LAISSEZ-FAIRE — a French phrase meaning 'to leave alone'; generally referring to non-restrictive atmosphere for business activity; a policy of limited government regulation and interference with business and trade.

"LEMON" — slang, generally refers to a product that fails to meet even low expectations for quality and performance.

LIQUID ASSETS — wealth which can be readily converted to cash.

LOSS — in finance, the amount by which expenses exceed income; the opposite of profit.

MACROECONOMICS — that portion of economics which deals with income determination, price level analysis and the effect of fiscal and monetary policy on the operation of the economic system.

MANAGEMENT — the process of organizing and utilizing resources to accomplish predetermined objectives; also the administrative aspect of an industry as opposed to labor.

MANUFACTURER — an organization using capital, labor and equipment in the production of manufactured items.

MARKET ECONOMY — an economic system in which manpower, raw materials, factories, farms and investments are organized in order to satisfy our wants.

MARKETING — the many different activities that are involved in moving goods from producers to consumers. In its broadest sense, this includes not only selling, but also advertising, packaging, research and other non-manufacturing activities.

MARKETPLACE — generally the place where goods and services are bought and sold.

MASS MARKET — a market serving large numbers of people buying and selling; a product made for a 'mass market' generally is one made to appeal to the masses and to sell at a price a vast number of buyers can afford.

MASS PRODUCTION — the manufacture or processing of large numbers of identical items, generally through use of machines and assembly line methods.

MICROECONOMICS — that portion of economics which deals with the relative prices of specific goods and the shares of national income derived by those who provide labor, management and capital.

MIXED ECONOMY — a system in which means of production are largely privately owned but in which certain aspects of economic activity are controlled by government; e.g. both private enterprise and government shape the overall economy.

MONEY — a medium of exchange which is widely circulated and generally accepted as a standard of value by a society.

MONETARY POLICY — actions of the Federal Reserve System, including changing the interest rates, bank reserves and quantity of money in circulation, taken in an attempt to achieve stable prices and full employment and economic prosperity.

MONOPOLY — a market situation in which only one organization produces the entire output of an industry or sells a product or service for which there is no substitute—as with telephone service in most areas.

MULTIPLIER EFFECT — an increase in private investment which causes income and employment to expand, increasing national income by a multiplied amount, that is, by an amount greater than itself.

MUNICIPAL — a term referring to a city, town, village, school district or any political division smaller than a county or state.

NATIONAL DEBT — a debt owed by the federal government, not including the debts of state and local governments.

NATIONAL INCOME — the total earnings derived from payments for the goods and services produced during a specific period of time, usually one year.

NATURAL RESOURCES — potentially productive land and materials in their natural state.

NET — the amount free and clear after necessary deductions.

OBSOLESCENCE — declining value of a product which results from technological improvements in similar products, changes in public taste and needs or other developments, all of which differ from a declining value that has resulted from normal wear, use and age.

OLIGOPOLY — a market situation in which a few sources dominate the market for a specific product or service.

OPERATING COST — expenses connected with the normal operations of a business, excluding non-operating expenses such as interest on debts, reserves for taxes, etc.

OPPORTUNITY COST — the process of measuring the value of a specific item by other items that could be had for the same price; essentially the weighing of one alternative against another rather than merely considering the cash price or value of a specific good or service.

OUTPUT-PER-MAN-HOUR — the average amount of work or goods that one worker can accomplish or produce in one hour.

PATENT — an exclusive right to make, use and sell an invention for a period of time; granted by the government.

PER CAPITA OUTPUT — the GNP divided by the country's population.

PERFORMANCE — the accomplishment of that which one agreed or promised to do; also with respect to products, the proper operation and function of the product and with respect to warranties, the accomplishment of what has been promised by guarantees.

PERSONAL CONSUMPTION EXPENDITURES — the total market value of purchases of goods and services by individuals and non-profit organizations.

PRICE — the amount of money asked for or given for the purchase and sale of goods, services and property.

PRIVATE DEMAND — a demand for goods and services from the private sector, consumers and business, as opposed to demand from government.

PRIVATE ENTERPRISE — a system in which means of production are owned and operated by individuals and privately owned organizations for the purpose of making profits—as opposed to government owned and controlled production.

PRODUCT — the result or end of some process of production or manufacture; also manufactured or processed items as opposed to services or to goods and commodities in their natural state.

PRODUCT PERFECTION — the aim of producing the perfect, durable, fail-safe product, without regard for production costs or selling price.

PRODUCTION — the act of manufacturing or creating something; that part of a business concerned with manufacturing.

PRODUCTIVE CAPACITY — the ability to produce goods and services at a given level.

PRODUCTIVITY — the amount of production as related to the effort required to produce it; physical amount of goods produced divided by total man-hours consumed in production.

PROFIT — in business, the excess of income over expenses or the amount left from total revenue after all costs are paid.

PROFIT MOTIVE — the desire for financial reward for investing time and/or money in a business and for assuming the risks involved.

PROSPERITY — a period of expanding business activity with high production, relatively high employment, active consumer spending.

PUBLIC DEBT — debt owed by the federal government.

PUNITIVE TAX — taxes that in effect penalize the taxpayer.

PURCHASING POWER — the capacity of an individual or group to purchase, as measured by income; purchasing power of the dollar refers to the relative amount of goods and services which can be purchased with a dollar in a given period of time as compared with some earlier period.

QUALITY CONTROL — the procedure a business uses to control or maintain set standards of production, product quality and performance.

RAW MATERIALS — goods in a natural or unmanufactured state which are used for manufacturing purposes.

REAL INCOME — the amount of goods and services one can buy with the amount of money earned during a certain period of time; the purchasing power of income.

RECESSION — that period of the business cycle which shows declining business activities in the economy.

RECOVERY — that period of a business cycle following a depression; an upswing or expansion in business activity; the regaining of something of value or its equivalent in money.

REGULATION — a law giving government control over specific business and economic activities.

REGULATORY AGENCY — the government departments which administer government regulations and laws; an agency that regulates.

REINVESTED EARNINGS — business earnings that are put back into the business to increase productive capacity and future earnings.

RESEARCH AND DEVELOPMENT (R&D) — a systematic investigation to establish basic facts, to discover new principles and to develop new methods or products.

RESOURCE — wealth or a source of revenue—includes time, energy, equipment, ability as well as financial wealth; also used in merchandising to refer to the producer or other supplier of goods to retail sellers. **Productive resources** — all the things used to provide and produce goods and services — includes management ability, raw materials, machinery, labor and capital goods.

RETAINED EARNINGS — the amount of earnings accumulated over the life of a business which has not been distributed to stockholders or used to increase capital stock; also called surplus earnings.

REVENUE — generally refers to the total income of a government or a business from sales, taxes, fees and other sources.

REVENUE SHARING — financial aid, sometimes called grants-in-aid, that states receive from the federal government and that localities receive from states which is usually allocated for highways, public welfare assistance and education.

RISK — an element of uncertainty or possibility of loss.

ROYALTY — payment made or demanded for some right or privilege; such as payments by mine or oil well operators to land owners under mineral leases, or payments by licensees to holders of patents on licensed inventions.

SAVINGS — generally, money set aside for specific purposes such as to use in the future, to offer security against financial risks or to earn money in the form of dividends or interest.

SCARCITY — shortage; an inadequate supply to meet demand for a given item at a given time.

SOCIAL GOALS — aims and objectives designed to meet the collective needs of the people.

SOCIALISM — an economic system in which the basic means of production are primarily owned and controlled collectively, usually by government under some system of central planning.

SPECIALIZATION — a division of labor in which individuals, regions and nations confine themselves to productive activities of making only those particular goods and services best suited to their resources; the restricting of business activity to a particular field.

SPECULATION — generally the act of putting money into some security or company or scheme with the hope of quick, sizable profit—usually involves a significant degree of risk.

STABILITY — a period of time in which prices hold steady and money will buy a given amount of goods and services.

STANDARD — any established measure commonly understood for comparing similar products in terms of size, weight, content, performance, specifications, safety, etc.

STANDARD OF LIVING — an economic term referring to the generally accepted amounts of goods and services which a large group considers essential.

STANDARDIZATION — the setting of basic standards or specifications which products must meet, (e.g. the standardization of bolt sizes so that an exact replacement can be obtained, regardless of who makes it and where purchased).

STOCK — a share in the ownership of a corporation; also merchandise for sale in a store.

STOCK MARKET — an exchange where stocks are bought and sold; the business of buying and selling of corporate securities.

STOCKHOLDER — one who owns shares of stock in a corporation.

SUPPLY — the amount of goods and services that will be available for sale at various prices at stated times.

TARIFF — a schedule of taxes levied on imported or exported goods.

TAX — the payments collected from persons, business or property by a government authority, primarily for the purpose of running the government.

TAX DEDUCTION — the amount that may be deducted from income before figuring income tax due; the items that are deductible for tax purposes.

TAX PAYER — an individual or business that pays taxes.

TRADE BARRIER — an impediment to trade among nations.

UNDERDEVELOPED COUNTRY — commonly refers to countries with a low per capita income; a country lacking the capital, technology and skilled labor needed to realize its economic potential.

UNEMPLOYMENT — in the economy, the difference between the number of persons in the labor force and the number of persons employed.

VALUE OF THE DOLLAR — the amount of goods and services that can be bought for a dollar.

WEALTH — useful material or economic goods.

WELFARE PROGRAMS — plans and projects wherein government provides or pays for services and facilities designed to meet the needs of all the people, often with the goal of lifting overall living standards.

WORLD MARKET — the international arena in which nations trade with each other.